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**Adrienne Cardoso Anzanello**

**BARRIERS FACED BY THE BRAZILIAN BUSINESS COMMUNITY**  
**TO ACCESS THE UNITED STATES MARKET SYSTEM**

**ACADEMIC ADVISOR: Ana Lucia Guedes**

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## **ABSTRACT**

Trade history between Brazil and the United States is long and complicated but it is only in recent years that the trade balance has become more equal in terms of both imports and exports. As Brazil continues to establish its position in the world economy and expand its export market it is only natural that it seeks to increase exports to its single largest trading partner, the United States, and maintain the market share already established. In order to achieve success in these regards Brazil must have a deep understanding of the American political economy system. Part of this entails understanding barriers that must be overcome by Brazilian businesses to access United States markets, particularly the access of certain products at the industry level.

This research supports that four criteria are integral to access the U.S. market. The four criteria are:

- 1) Imports are relatively free of restrictions/regulations**
- 2) Issues are relatively more important to the Brazilian agenda than the American agenda**
- 3) Active representation in the US market system**
- 4) Issues have been addressed in multilateral arena**

I applied these criteria to six case studies at the industry level and found that all of the industries faced barriers in accessing the U.S. market system.

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# 1 INTRODUCTION

## 1.1 Objective

The principal question addressed by this research is How and Why some Brazilian businesses have access to the American market system<sup>1</sup>. I sought to answer this question by identifying barriers that exist between the Brazilian business community and US market system.

## 1.2 Relevance

The economy of Brazil is described by analysts as ‘modern’, diversified’, ‘stable’ and ‘healthier’ (ANDRADE, FANTONI and JONES JR., 2007, 1) (HORNBECK, 2007, 2). The classification of products and services can be described as follows: Services- 53% of Gross Domestic Product (GDP); Industry and manufacturing--37%; and Agriculture-- 9%. Varying measures of agribusiness estimate that the contribution to GDP is around 30% (HORNBECK, 2007, 11). Brazil is the number one producer of raw sugar, oranges, and coffee in the world, and the second largest producer of soybean, beef, poultry, and corn (HORNBECK, 2007, 12). In addition to agricultural-related industries Brazil is also a major producer of steel, aircraft, automobiles, and auto parts. However, in comparison to other nations with similar GDP, Brazil is underperforming with only 0.9% of world trade. Brazil’s total trade accounted for only 26% of GDP in 2004, an increase of 14% in a decade’s time but still a relatively small amount compared to the rest of Latin America (HORNBECK, 2007, 12).

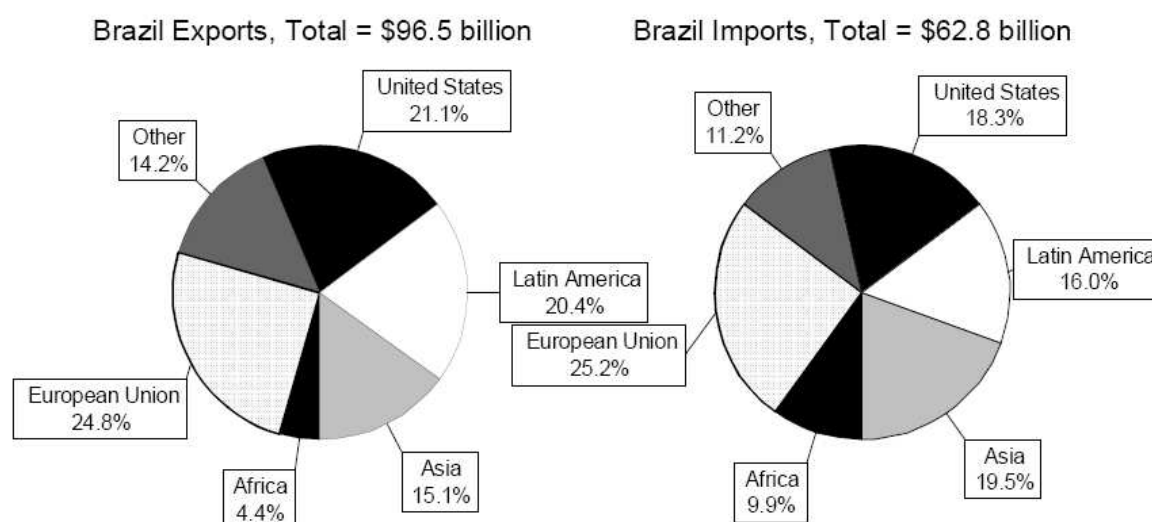
In terms of trading partners, Brazil’s global trade is diversified with 25% of exports going to the European Union, 21% to the United States, 20% to Latin America, and 15% to Asia. Imports originate (in order of importance) from the European Union (25%), Asia (20%), the United States (18%), and Latin America (16%). Brazil’s single largest trading partner is the United States (see Figure 1) who, joined by Argentina and Germany, account for over one third of Brazil’s world trade. It is interesting to

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<sup>1</sup> Defined in depth in section 2.1.1.

note that each of these countries is the dominant trading partner with its trade bloc (North American Free Trade Agreement (NAFTA), Southern Cone Common Market (MERCOSUR), and the European Union (EU)) (HORNBECK, 2007, 12).

**Figure 1: Brazil's Direction of Trade, 2004**



Source: (HORNBECK, 2007, 12)

Since the 1970s, economic policy changes, democratization and the end of the cold war in Europe had widespread impacts on the formulation of domestic economic policy within Brazil and between Brazil and the US. Brazil focused on developing its economy while cultivating a more autonomous foreign policy. Analysts concur (ANDRADE, FANTONI and JONES JR., 2007) (RIBANO, 2007, 4) (HORNBECK, 2007, 10-11) that Brazil is at a pivotal point in development, and that several important steps must be executed in order to ensure continued economic growth and stability. One of these objectives is to increase exports (HORNBECK, 2007, 12) (ANDRADE, FANTONI and JONES JR., 2007, 6) and since the US is Brazil's *single largest* trading partner, initiatives to increase exports (or lower barriers to trade) with the US are particularly interesting. Despite its size Brazil is still only the US's 13<sup>th</sup> largest trading partner (Brazilian Embassy, 2007, 5) leaving plenty of room for increased trade (HORNBECK, 2007, 19) which totaled \$35 billion, or 8.2% of US trade with Latin America.

Several Brazilian officials share the perception that negotiations with the United States on some of the longer-standing trade issues have reached the point of

exhaustion in terms of government to government negotiations and the US is much more interested in unilateral action instead of bilateral or multilateral negotiations. The result has been a very public escalation of tensions and misunderstandings in official circles (HIRST, 2005, 29) and for Brazilian officials to seek other manners to foster Brazilian interests in American circles including the mobilization of Brazilian caucuses to support inter-firm connections, Brazilian businesses in the U.S., and media access to the Brazilian point of view. Thus, the general perception of the US amongst Brazilian officials is a hegemonic superpower exercising limitless power and influence on its giant neighbor (HIRST, 2005, 29) (WESSON, 1981, 12) (ALBUQUERQUE, 2005, 142).

However, a cursory glance at trade relations reveals several success stories where Brazilian businesses have been able to break through and access the US markets. Why are some companies better able to do so than others? What leverage may a company be able to exercise in order to improve its chances of successful market access? With the results of this analysis I hope to be able to provide some answers to these questions.

### **1.3 Methodology**

The research methodology I selected for this research is a holistic, multiple-case study design (YIN, 2003, 46). By definition, a case study is

...an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident (YIN, 2003, 13).

Therefore this method is the preferred method when one deliberately wants to cover contextual conditions because one believes that they may be highly pertinent to the phenomenon being studied (YIN, 2003, 13). I chose to analyze multiple cases (also referred to in anthropological and political science fields as “comparative” case studies (YIN, 2003, 46)) because I want to strengthen the validity of any results by recording various instances of case studies (HERRIOT and FIRESTONE, 1983, 14-19) that highlight general characteristic of the issue in question<sup>2</sup>. I chose a holistic

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<sup>2</sup> Also because I am applying replication logic (vice sampling logic) in the analysis of these cases. Replication logic is analogous to conducting multiple experiments where each individual case consists

(vice embedded) design (YIN, 2003, 42-46) because the unit of analysis is the industry and how it interacts within its context, rather than individual units of analysis within the industry, therefore the data is decidedly qualitative.

I analyzed whether certain criteria were present in the cases where industries have achieved at least some access to US market. Based on this review, I analyzed whether the presence of certain criteria at the industry level had an impact (and partially explained) the success or failure of access to the American market.

Since the principal question to be answered is How and Why do some Brazilian businesses have access to the American market system I decided to identify and apply a set of criteria to case studies at the industry level, evaluating what impact, if any, those criteria had on the access of that industry to the American market. I selected the criteria based on assertions made by Robert Wesson in, "The United States and Brazil: Limits of Influence"(1981). In that book Wesson posits that the conventional wisdom of the relationship between the US and Brazil is that of a hegemonic power unconditionally asserting its will against its giant, yet virtually powerless southern neighbor (WESSON, 1981, 2). This point of view is supported in several other texts (HIRST, 2005, 19, 27, 64) (DUPAS, 2003, 277, 286). Wesson's perception is different, he asserts that

Brazil has enjoyed greater bargaining in such controversies [coffee exports, territorial waters, shoe exports] because: first, the general atmosphere has called for industrial states to make concessions to developing instead of vice versa; second, Brazil buys more from the United States than it sells [not true anymore]; third, the issues have been important for Brazil, secondary for the United States; and fourth, the Brazilian government is more monolithic than the American. ...It thus seems clear that US leverage on specific issues is very limited, unless this country is prepared to make a much larger economic or political investment in swaying or coercing Brazil than it has made in the past. And while diplomatic leverage is slight, the most effective US influence on Brazil is diffuse and unplanned, the general impact of one society, economy, and culture on another. (WESSON, 1981, 167).

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of a whole study and is selected so that it will either (a) predict similar results (a literal replication) or (b) predict contrasting results but for predictable reasons (a theoretical replication). If all of the cases turn out as predicted, the evidence is considered compelling support for the initial set of propositions (see YIN, 2003, pp. 47-53).



Since Wesson's book was written in 1981, I updated the points—grounded in current literature that will be presented in Chapter 2-- to reflect changes in the Brazil-US relationship and world system since the book was published. I removed the second point (since trade between Brazil and the US has been balanced or in Brazil's favor since 2000 (Brazilian Embassy, 2007, 24, 27) and modified the other points to better reflect factors important to Brazilian business access to the American market system. The criteria used to analyze the data (by industry) are:

- 1) Imports are relatively free of restrictions/regulations**
- 2) Issues are relatively more important to the Brazilian agenda than the American agenda**
- 3) Active representation in the US market system**
- 4) Issues have been addressed in multilateral arena**

By the first criterion I mean industries that are regulated by high tariffs, quotas or anti-dumping laws for example, such laws are usually implemented to protect American industry, a practice that became routine during the 1980s. By the second criterion I mean that industries/issues that are more important to Brazil than to the US quite simply have a better chance of a successful outcome because Brazil will naturally be more inclined to fight for a favorable outcome than the US on those issues and the US will also be less likely to upset Brazil by insisting on issues that it may not have a deep-seated interest in defending. By the third criterion I mean industry representatives that have a deep understanding of the American system and all of the entities that regulate and have an effect on imports that come in to the nation. In short, "Understanding the dynamics of coalition-building, both among firms and industries and between business and non-business constituencies, is essential to any analysis of the extent and scope of business power" (VOGEL, 1996, 158). Beyond being aware of these entities, strong representation should include knowledge and access to engage US officials on behalf of Brazilian industry as well as engage in multilateral organizations to achieve rulings in favor of Brazilian interests. It may also mean that the industry has sought out American partners that share some of the same interests and may act as allies within the American system. By the fourth criterion I mean that issues related to this industry have been adjudicated in the

multilateral arena in organizations such as the World Trade Organization (WTO), United Nations (UN), or other international organization.

I examined several cases at the industry level. As certain industries/cases may have experienced fluctuations in terms of success, I limited and classified each case for a specific time period. I analyzed whether the conditions outlined above were present in the case and may therefore be presumed to have contributed to a successful outcome.

The criterion I used for interpreting the findings is replication logic. In applying replication logic to case studies, "The cases should serve in a manner similar to multiple experiments, with similar results (a literal replication) or contrasting results (a theoretical replication) predicted explicitly at the outset of the investigation" (YIN, 2003, 47). In the cases involved in this study I predicted that the presence of any combination of the four criteria can explain barriers for Brazilian business to access the US market system.

The undertaking of this analysis is extremely complicated, as are the issues that are analyzed and, even more so, the context(s) in which these issues arise. For this reason, this dissertation goes beyond the traditional business literature and employs a multi-disciplinary approach in the belief that a complete understanding of the context in which business operates is required in order to recognize barriers that affect access to markets. The literature review includes contributions from academic experts in the areas of International Political Economy, American Politics, Comparative Politics, Political Economy, International Business and International Relations as well as professional diplomats, government analysts and other interested parties (Brazilian and American).

I did not presume that the presence or absence of the four criteria examined will definitively determine success or failure to access the American market system. I simply suggest that they are at best good indicators, and at worst important factors, in the success or failure to access the American Market System. Cognizance of this fact could potentially prove invaluable to Brazilian businesses attempting to access US market.

## **2 LITERATURE REVIEW**

### ***2.1 American Business System***

#### ***2.1.1 Key Features***

Robert Gilpin asserts in his book “Global Political Economy: Understanding the International Economic Order” that in order to understand and assess any economy we must analyze three main factors: (1) the purposes of the economic activity of the nation, (2) the role of the state in the economy, and (3) the structure of the corporate sector and private business practices (GILPIN, 2001, 93). The United States, examined through this lens, most resembles the neoclassical model of a competitive market economy i.e., individuals are expected to act in a manner that maximizes their own personal interests (utility) and businesses are expected to operate in a manner that maximizes their profits. It is based on the notion that markets are naturally competitive and when not competitive, that one of government’s roles is to foster competitiveness through policy tools. Unlike other economies, the role of government is seen as minimal (principally to correct market failures) and the sense of social responsibility of the business sector is lesser than compared to other economies.

According to Gilpin, the primary purpose of the US government in terms of economic activity is to “benefit consumers while maximizing wealth creation: the distribution of that wealth is of secondary importance” (GILPIN, 2000, 150). However, this purpose is caveated by several exceptions where the purely neoclassical laissez-faire ideal is diluted by the notion that the federal government has a responsibility to redistribute wealth, thereby promoting economic equity and general social welfare. This dilution can be attributed to several carefully crafted legislative efforts including the New Deal of the 1930s (which created a power shift away from big business and back to government with exercising of regulatory powers coupled with the rise of organized labor), and the Full Employment Act of 1946 whereby the federal government attempted to create ‘full employment’ by exercising macroeconomic, fiscal and monetary) policies (GILPIN, 2000, 151).

Gilpin characterizes the American economy as a system of “managerial capitalism” (GILPIN, 1996, 416). By this, in addition to the characteristics discussed above, he means that there exists a strong regulatory bureaucracy couple with empowerment of organized labor. Any economic activity that is not expressly prohibited is allowed, and the economy is open to the outside world unless specifically closed. Another feature of the American system according to Gilpin is the division of authority over the economy among the executive, legislative and judicial branches of the federal government. In fact, *the* structural feature of the American political economy is the federal system itself which fragments authority over the economy between Washington and the fifty states (GILPIN, 1996, 417). Gilpin points out that this fragmented system is a source of consternation to America's economic partners because it is difficult to know who has the final word on any given issue. Conversely, it provides easier access for such partners and special interest groups to decision-makers and those that hold power over the American economy precisely because there are so many power centers (GILPIN, 1996, 417).

Over the decades and in accordance with performance of the national economies, Americans' willingness to accept federal government meddling in the economy seems to swing like a pendulum, “an unresolved tension between ideal and reality in American economic life,” as Gilpin puts it (GILPIN, 2000, 152). The general idea is that the best protection for consumers is open competition and that the role of government should be limited to 1) the creation of a neutral environment for business 2) provision of public goods and 3) correction of market failures. Others maintain that a main role of government is to protect the consumer, requiring more activist activities.

Another author who has dedicated considerable attention to understanding business and politics in America, predicated on the notion that one must have an intimated knowledge of the American system, is David Vogel. Like Gilpin, Vogel asserts that central to understanding the American system is an understanding of the role of business in the American system: “The triumph of capitalism has made corporations the most important non-governmental institutions not only in western democracies, but globally,” (VOGEL, 1996, 147) he writes. Acknowledging that societies are now more dependent on business to help solve critical social issues, he posits that it is

more critical than ever that we understand how these institutions interact with one another.

Gilpin's approaches the topic largely from an international political economy perspective, while Vogel approaches it from a business management perspective, attempting at the same time to bridge the gap between management and political science studies. Like Gilpin, central to Vogel's research is the theme of placing his analysis of the business-government relationship in an appropriate historical context (VOGEL, 1996, 151). Vogel's article sheds light on the remarkable power of business in the American system and in particular, business as a political actor.

In his attempt to describe the American economy Gilpin points out characteristics specific to their economy (in contrast to other prominent world economies.) He notes, for example, that German and Japanese companies have a greater sense of responsibility to society/individual citizens: The Japanese are more committed to the interest of their *stakeholders* (investors, labor, subcontractors, community, etc) while Germans feel more responsibility to society as a whole, and the Americans view a firm as a commodity to be bought, sold or changed without regard to the social consequences. Industrial policy (such as financial subsidies, trade protection or government procurement) is much less likely to be employed in the US than in most any other nation. There also exists tension between the private and public sectors, a general distrust of one another. This tension is central to Vogel's analysis of the American system: "Distrust and suspicion of public authority have been a recurrent feature of American business ideology since at least the 1840s" and "...reflected two distinctive features of the political economy of the United States, namely, the limited role of the federal government in shaping the pattern of American economic development and the relative openness of the American political system to demands from non business constituencies" (VOGEL, 1996, 152). Vogel devotes a considerable space to developing this idea in his article.

Gilpin presents as another example of uniqueness is how power over the economy shifts over time as responsibility for macro-economic policy is, in fact, distributed: fiscal policy is left to Congress and the executive branch while monetary policy is formulated by the Federal Reserve (which operates quite independently from the

rest of the federal government.) With various organs contributing to the function of the economy, power can shift subtly and suddenly, such as in the early 1980s when Congress, unhappy with the Reagan administration's fiscal excesses and immense federal debt, deemphasized fiscal policy leaving the Federal Reserve (who reigns over monetary policy) the principal manager of the American economy.

Related to this is Gilpin's notion of the American business system. Probably his best characterization of the American business system—and most important for foreigners who plan to do business in the US to comprehend—is how it parallels the American political system. In describing the system he chooses words such as fragmented, incoherent and inconsistent. He points out that just as American policies are formulated in various institutions with various objectives, American business is much more dispersed. Policies intended to discourage the concentration of corporate power encourage competition, and discourage sharing of technologies and resources. American corporations may be loyal to stockholders, but often the largest stockholders only own 1 or 2 percent of shares. Industry and finance are more separated in the U.S., and industry less united. In short, "...ideological, structural, and public versus private aspects of the American political economy have restricted greatly the capacity of the American government to develop a coherent and effective national economic strategy" (GILPIN, 2000, 153). This inconsistency also leads to shifts in just 'who' is responsible for managing the economy. Vogel also focuses on this feature, terming it a 'lack of administrative discretion' (VOGEL, 1996, 153).

He also describes the distribution of both political and economic power within the American business community as highly fragmented, and links that fragmentation to the general distrust between business and government (VOGEL, 1996, 153). However, he asserts that government support for existence for industry does exist, but is rather unique in structure, extent, and purpose (VOGEL, 1996, 155).

Finally, Vogel makes the point that, "Understanding the dynamics of coalition-building, both among firms and industries and between business and non-business constituencies, is essential to any analysis of the extent and scope of business

power” (VOGEL, 1996, 158). This analysis applies not only to domestic businesses, but also to international businesses seeking access to US markets.

### ***2.1.2 Institutional Context***

Both Gilpin and Vogel characterize the American system as fragmented and decentralized, with players exerting power at many different levels and in many different contexts. Business is driven towards maximizing profits, with little regard for social, environmental or other impacts. It is the role of government to regulate and care for such matters. The economy is impacted by many players, not a centralized Ministry, as in many other countries. Of particular interest for this dissertation is the multitude of entities that regulate and otherwise effect the business environment for foreign companies attempting to access the US market.

Vogel contributes to this thinking by pointing out that unlike other capitalist nations, business and public interest groups have more influence over the political agenda and access to both the courts and the Congress (VOGEL, 1996, 155), presenting American business with a unique source of power and influence.

In order to understand American business, and how foreigners can maximize business opportunities in America, one must have a rudimentary understanding of the context in which business functions. A good start is an understanding of the institutions that create such an environment.

#### ***2.1.2.1 Congress***

The legislature of the US is bi-cameral, with two chambers: the Senate and the House of Representatives. The Senate is comprised of 100 hundred member representatives (Senators), 2 for each state regardless of the size of the state while representation in the House (currently with 435 members) is apportioned according to the size of the population of the state. The chambers are equal, though the constitution grants each some special power. For example, the senate, in conjunction with the President has the authority to negotiate and approve treaties as well as appointments of officers of the United States such as ambassadors and ministers—giving considerable sway to the political leanings and actions of all of the administrations presidentially-appointed, senior officers (the Cabinet). However, all

bills for raising revenues (such as taxes and tariffs) must originate in the house, giving undeniable fiscal power to its members (MSN Encarta Encyclopedia website, 2007).

#### ***2.1.2.2 The United States Department of the Treasury***

The United States Department of the Treasury is one of the original cabinet departments created to advise the President and manage matters related to government revenue. Via the Internal Revenue Service (IRS) it collects individual and business taxes as well as pays all federal bills. Via the Bureau of Engraving and Printing and the United States Mint it prints and mints all money and postage stamps in circulation. Other responsibilities also include: Managing Federal finances; Managing Government accounts and the US public debt; enforcing federal finance and tax laws; Supervising national banks and thrift institutions. While the main role of the Treasury is to advise on domestic and international financial, monetary, economic, trade and tax policy (which, in total, is referred to as fiscal policy), it is in Congress where the final responsibility rests (United States Department of the Treasury website, 2007).

#### ***2.1.2.3 The Federal Reserve***

The Federal Reserve System is a quasi-governmental/quasi-private banking institution that is the central bank of the US. Membership is made up of (1) the presidentially-appointed Board of Governors of the Federal Reserve System in Washington, D.C.; (2) the Federal Open Market Committee (more below); (3) 12 regional Federal Reserve Banks located in major cities throughout the nation acting as fiscal agents for the US Treasury, each with their own nine-member board of directors; (4) numerous private US member banks, which subscribe to required amounts of non-transferable stock in their regional Federal Reserve Bank; and (5) various advisory councils (Board of Governors of the Federal Reserve, 2005, 1).

#### ***2.1.2.4 The Federal Open Market Committee***

This committee a component of the Federal Reserve System and a principal tool of US national monetary policy is responsible for overseeing open market operations (the buying and selling of government securities.) The Committee dictates short-term objectives for open market operations directly affecting loan rates for commercial banks. When the Federal Reserve System directs operations in foreign exchange



markets, it is the Open Market Committee that executes such exchanges, though always in conjunction with the Treasury Department, which is responsible for policies affecting the foreign exchange value of the US dollar (Board of Governors of the Federal Reserve, 2005, 3, 11).

#### ***2.1.2.5 Food and Drug Administration***

The US Food and Drug administration (FDA), under the auspices of the US Department of Health and Human Services, is one entity that is fairly easy to overlook but that has substantial impact on certain industries and imports that enter the country. The FDA is charged with protecting the public health by governing and testing the safety and efficacy of drugs, biological products, medical devices and the nation's food supply. This agency works closely with the US Customs and Borders Control to monitor all goods that enter the country and that are under their area of concern (US Food and Drug Administration website, 2007).

#### ***2.1.2.6 Department of Agriculture***

The United States Department of Agriculture (USDA) is responsible for a wide variety of issues including the development and execution of national policy regarding farming, agriculture and food. The mission of the USDA includes monitoring the safety of agricultural products produced in the US as well as those imported. Additionally, they work to support farmers and ranchers, foster rural communities, protect natural resources and foster agricultural production and trade. In this role, this agency is also responsible for setting quotas and tariffs on the importation of certain agricultural products, such as sugar, soybeans, cotton, and many other agricultural products (US Department of Agriculture website, 2007).

#### ***2.1.2.7 United States Trade Representative***

While the USDA is responsible for setting quotas and establishing tariffs the USTR is responsible for allocating those quotas. It is responsible for developing and implementing US Trade Policy in both the bilateral and multilateral arenas. Since the early 1980s one major focus of the USTR has been the protection of International Property Rights. To this end this office issues an annual report called the Special 301 Report which analyzes International Property Rights around the world and classifies certain countries based on the adequacy of the protection they offer to intellectual property rights (United States Trade Representative website, 2007).

### **2.1.2.8 US Court of International Trade**

The US Court of International Trade was created by the Customs Courts Act of 1980 with the aim of equipping the federal judicial system to deal effectively and efficiently with civil actions arising out of international trade transactions as well as federal statutes affecting international trade. In addition to providing expeditious procedures the formation of this court avoids jurisdictional conflicts among federal courts (since it reviews cases originating nationwide) and provides uniformity in the judicial decision-making process. The nine judges, appointed for life, are nominated by the President, with the advice and consent of the Senate (US Court of International Trade website, 2007).

### **2.1.2.9 Consumers as Regulators**

Another important regulatory group in the US system is neither formal nor a part of the federal government, it is consumers. When joined together, consumers have the ability to challenge business directly, and in effect, force business to change its course of action. In the mind of the citizen, giant corporations take on government-like characteristics, with power comparable to that of the 'official' government. Therefore, activists have resorted to lobbying the corporation itself (VOGEL, 1996, 156). Consumer groups have successfully challenged business decisions on topics as diverse as the killing of dolphins by tuna fish processors to the marketing practices of infant formula producers in developing countries.

## **2.2 American-Brazilian Bilateral Relations**

A comprehensive description of the special relationship between Brazil and the U.S. would require a deep analysis of three areas—Historical Overview, Trade (legal) Culture. Cultural issues, while relevant to the understanding of Brazil-US relations, are not within the scope of this research. It is enough to note that the US has exerts more cultural influence over Brazil than vice versa, but that Brazil has also inherited strong cultural traditions from England, France, and of course, Portugal (WESSON, 1981, 11-13, 145). The focus of this dissertation is trade and for a complete understanding of this area a historical overview of relations between these two nations is indispensable.

### **2.2.1 Historical Overview**

The relationship between the US and Brazil has been characterized by complexity, competing interests and cooperation—both politically and commercially—over the course of nearly 200 years. This special relationship originated when the US stepped forward as the first nation to recognize Brazilian independence declared in 1824 (WESSON, 1981, 12). Commercial relations were established that same year when Don Pedro I, Brazil's first emperor, sent diplomatic representation to the US. Over the next several decades relations continued evolving as the northern partner became the primary consumer of Brazilian exports (WESSON, 1981, 13).

In 1917 the relationship continued to solidify when Brazil became the only South-American nation to go to war against Germany as an ally to the United States and later Brazil became the first South American nation to exchange Ambassadors (vice ministers) with the US (WESSON, 1981, 13). After the war, the US became a leading investor in Brazil.

However, the Brazilian revolution of the 1930s resulted in a deepening of the link between foreign affairs and domestic economic politics, and Brazil pragmatically considered the benefits of accepting German friendship. Under the leadership of Getúlio Vargas, Brazil struggled to maintain friendly relations with both countries but the US called again for Brazil's support in WWII, when President Roosevelt negotiated the use of Brazilian military bases in exchange for construction of the first metallurgical mine in Brazil (Volta Redonda) and for modernization of Brazilian Armed Forces. Later, Brazil insisted on 'special relationship' status with the US in exchange for cutting ties with the Third Reich and Axis Powers. In August, 1942 Brazil formally declared war against Germany and Italy and was the only Latin American country to send troops to Europe during World War II (WESSON, 1981, 17). As such, expectations for appropriate recognition and even compensation were high, but were met with disappointment with the US's post-war reconstruction efforts in Europe moved forward without much attention to compensating Brazil for their efforts.

The US continued to court their southern neighbor during the cold war years, in an attempt to secure stability and security in Latin America and to more firmly establish a

democratic tradition in contrast to the communist threat. The 1950s saw a continuation of this spirit of cooperation with Operation Pan-Americana which an attempt to foster development in Brazil (and other Latin American nations) as a means to opposing communist threat. However, signs of Brazilian resistance to American influence began to appear in the late 1960's, especially in regards to the role the US played in the military coup overthrow of President João Goulart and the installation of a right-wing, hardliner governance (WESSON, 1981, 27).

Relations continued growing more intense during the 1970s when the US (under the leadership of Jimmy Carter) became more exigent with Brazil regarding human rights issues. At the same time, US Brazil economic relations intensified because of Brazil's debt crisis and a shift in global financial circumstances, intensifying Brazil's exposure to international economic pressures. In 1978 President Carter raised the issues of torture and disappeared dissidents, resulting in a backlash or protests to American involvement in domestic Brazilian issues. In addition to human rights issues, economic issues began to cloud traditionally good Brazil-US relations in 1987 when Brazil, facing monetary difficulties, declared a debt moratorium, upsetting American creditors. Just prior to this, Brazil had instituted export incentive programs and a market reserve policy making it a target for US coercive diplomacy practices. At the same time, the United States, developing a more protectionist stance, imposed a tariff against Brazilian products, specifically in the technology/informatics industry. One measure, the Trade Act of 1974, would be the vehicle for expressing disdain with Brazilian Trade Practices in specific, and to protect American industries in general. Under this act,

...the president is required to take all appropriate action, including retaliation, to obtain the removal of any act, policy, or practice of a foreign government that violates and international agreement or is unjustifiable, unreasonable, or discriminatory, and burdens or restricts US commerce. In practice, this provision has been employed increasingly on behalf of American exporters fighting foreign import barriers or subsidized competition foreign markets. (*HIRST, 2005, 109*).

By the 1990s relations began to improve again with the election of Brazilian President Fernando Collor de Mello, who pursued a policy of liberalizing the Brazilian economy. Concurrently, American President George Bush pursued the Free Trade Area of the Americas Agreement (FTAA), seeking to liberalize trade throughout the Americas.

Economic and trade matters incentivized the strengthening of relations between the two nations.

By 1995 Brazil-American relations were characterized by a close personal relationship between Brazilian President Fernando Henrique Cardoso and American President Bill Clinton. During this time period, Brazil began to assert its independence in several economic issues and was unable to reach an agreement with the United States on certain FTAA issues as well as agricultural tariffs and American subsidies, these and related issues continue to be debated and are a source of discord today. Diplomatically, Brazil has also exerted its sovereignty by taking a decisive stance against the American invasion of Iraq, as well as on various other issues including the Brazilian President, Luiz Inácio Lula da Silva authorizing the breaking of American patents in the production of certain anti-HIV/AIDS drug therapies, and the refusal to modify anti-HIV/AIDS campaigns in order to conform to criteria required to receive US funds for such campaigns.

One author has identified five distinct phases in US–Brazil Relations: Alliance (1824-1940s) during which time there was an loose, unwritten agreement of cooperation between Brazil and the U.S as Brazil developed in to a republic; Alignment (1942-1977) where Brazilian policy, decidedly anti-Soviet, seemed basically to converge with US military and political expectations; Autonomy (1977-1990) when Brazilian policy was characterized by a more autonomous stance, pursuing actions that were in the best interest of Brazil including closer ties with the developing world and disconnection from the Cold War agenda; during the fourth phase, Adjustment (1990-Lula) a more flexible policy in relations to US desires was employed, predicated on a decidedly autonomous foreign policy with the aim of improved access to markets, credit and technology and overall reform; during the last phase, Affirmative (Lula-present) is an affirmative posture in US Brazil relations was revisited while maintaining an autonomous foreign policy. (HIRST, 2005, viii, 1-18).

In recent years the relationship between Brazil and the US has been colored by both cooperation and opposition. Trade issues (particularly in regards to agricultural subsidies) continue to paralyze both FTAA and WTO Doha round negotiations, yet the nations have recently sealed a partnership for ethanol fuel research and

production. Both nations recognize that maintaining strong relations with each other is central to achieving foreign policy objectives. Brazilian links to Washington are important not only because of the huge economic significance of US trade, investment, and technology but also because US good will and support are essential to Brazil's global and regional influence: Good rapport between the two country's trade negotiators enhances Brazil's role at the Doha talks while mutual respect between Brazil's Ministry of the Economy<sup>3</sup> and the US Treasury assures that Brazil is regularly invited to the G-8 meetings of the world's leading economies. In short, US support reinforces the legitimacy of Brazil's leadership in South America and Brazilian leaders are cognizant of this fact.

Likewise, American officials are aware of Brazil's importance to American foreign policy. In a time when US ties with Latin America are unstable and the region rife with anti-US sentiment, good relations with Brazil are vital to Washington's credibility in the region principally in offsetting the influence of US antagonist Hugo Chavez and creating opportunities to pursue US foreign policy in the region. The US views Brazil as a sort of stabilizing force in Latin America and a leader in subregional, regional and global negotiations. The nation is viewed as a key ally in several issues of convergent interests including counter-narcotics, counter-terrorism, human rights, HIV/AIDS prevention and the environment. Most recently, Brazil's role as an ethanol producer has generated growing interest and admiration in the US Congress and in the US business sector (RIBANO, 2007, 2) (HORNBECK, 2007, 23).

In short, the relationship today is characterized by an acknowledged interdependence: The US and Brazil are the fourth and fifth most populous countries in the world. Brazil is the largest country in South America, comprising 45 percent of the population of Central and South America and 51.5 percent of the regional gross Domestic Product (HIRST, 2005, 73). Brazil's territorial size is second only to Canada and the US while its population and gross domestic product are second only to the US (HIRST, 2005, viii). US trade, investment, and technology are critical to the Brazilian economy and good relations with Brazil are critical to maintaining credibility in a region rife with anti-American sentiment. However, to be sure, summarizing and

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<sup>3</sup> Ministério da Fazenda is the Brazilian agency that manages monetary and financial external matters. This translation is borrowed from Monica Hirst (HIRST 2005, 19).

understanding the long and complex relationship between Brazil and the United States is difficult—there are countless actors on many levels interacting via many channels in both nations—all impacting relations between the nations on various issues.

Diplomatic relations between Brazil and US have always vacillated between good and excellent. From the beginning, the US has supported Brazil's independence and recognized the important position held by Brazil in Latin America. US official country reports (RIBANO, 2007, 5) (HORNBECK, 2007, 2) (Central Intelligence Agency website, 2007) tend to describe Brazil as moderate leftist government that shares the US commitment to democratic practices, human rights, and prudent macroeconomic policies and a foreign policy based on the principles of multilateralism, peaceful dispute settlement and nonintervention in the domestic affairs of other sovereign nations. Such reports describe Brazil-US relations as generally friendly and cooperative, with a few notable exceptions. Brazilian foreign policy has recently focused on regional integration giving priority to the development of the Southern Cone Common Market (MERCOSUR) and now the South American Community of Nations (RIBANO, 2007, 2, 12). The US evaluates Brazil as a middle-income country and as such, does not receive large amounts of US aid (most recent figures available show that in fiscal year 2006 the United States congress allocated around \$13.6 million to Brazil; 2007 actual aid amounts are not yet (RIBANO, 2007, 14).

Brazil recognizes the importance of the US in the world scheme, and looks to the US as a “political model, the inspiration of Brazilian republican institutions” (WESSON, 1981, 165). Likewise, the US has always sought to maintain strong diplomatic ties with Brazil, despite sometimes divergent foreign policy objectives. It is a testimony to the reciprocal importance of both nations to one another that in 183 years of bilateral relations, diplomatic relations have never been severed.

That is not to say that there have not been political controversies in the history of the two nations. Perhaps the most controversial matter was the coup of March 31<sup>st</sup>, 1964 which was supported (and some say, orchestrated) by the US government (WESSON, 1981, 165) (HIRST, 2005, 7) who favored the establishment of the Brazilian constitutional government just 22 years before. During the period between

World War II and 1990, Brazil's government (both democratic and military governments) sought to increase influence by means of a state-led industrial policy and an independent foreign policy. In recent times, one of the principal aims of Itamaraty (Ministry of Foreign Relations) has been to strengthen diplomatic ties with other South American countries and to engage in multilateral diplomacy via the United Nations (U.N.) and the Organization of American States (OAS), along with several trade organizations (HIRST, 2005, 31).

Brazil has become more active on external issues including increased participation in diplomatic and trade issues, especially under the leadership of President Luis Inácio "Lula" da Silva in regional and multilateral trade talks, as well as a hand in diffusing potential political crises in Venezuela, Ecuador, and Bolivia (RIBANO, 2007, 4, 12) (HORNBECK, 2007, 14). In partnership with Colombia, Brazil has supported its ongoing struggle against terrorist organizations and drug and is also commanding the U.N. stabilization force in Haiti (RIBANO, 2007, 4, 12). At times, Brazil serves as a countervailing force to US political and economic influence in Latin America, leading opposition to US intervention in Iraq and foreign policy with the Middle East in general, as well as taking a lead role in WTO talks with developed nations regarding agricultural subsidies (RIBANO, 2007, 19). The expansion of MERCOSUR, rapprochement with other developing powers such as China and India and strengthened trade with relations with the EU continue to be at the top of the Brazilian diplomatic agenda (HIRST, 2005, 69) (RIBANO, 2007, 4, 8).

In addition to trade issues (which will be discussed in-depth in the next section) Brazil and the United States have worked closely on a wide range of bilateral and regional issues such as human rights protection, HIV/AIDS prevention and treatment, counter-narcotics operations, energy security, environmental issues, Brazilian immigration to the US and anti-terrorism (RIBANO, 2007, 5) (HIRST, 2005, 50-60).

Though the nations cooperate on many issues there still exist several issues which are contentious. Bush Administration has bristled at Brazil's close ties to Venezuela's Hugo Chavez (although the relationship has somewhat waned due to repeated attempts by Chavez who has used his country's vast oil wealth to gain influence in the region, particularly in Bolivia and Ecuador, thereby challenging Brazil's role as a



leader in South America) (RIBANO, 2007, 12). Also, in a bitter power struggle, the US has yet to support Brazil's aspirations for a permanent seat on the UN Security Council (HIRST, 2005, 44) though the US has indicated that it would support a membership without veto power.

Despite differences in political opinion and priorities differences are, for the most part, accepted rather calmly and conciliation on recent issues proves that both nations have learned to tolerate their difference and find ways to cooperate on problems of mutual interest. For example, at Washington's urging, in June 2004 Brazil agreed to command UN peacekeeping operations in Haiti despite visceral public objection to the deployment of troops. The 2007 agreement between Brazil and the US regarding cooperation on research and marketing of biofuels has added a new and potentially far-reaching dimension to bilateral relations. Finally, despite numerous failed talks, the US and Brazil have both expressed a deep commitment to resolving the impasse on agricultural subsidies at the WTO Doha talks.

While it is true that Diplomacy as it relates to these two nations is more a matter of consultation on individual matters of mutual interest, it is also true that the complex domestic political process and structure that exists within both nations creates an environment where negotiations are often long and protracted and outcomes inconsistent. For example, in Brazil, the Ministry of Foreign Relations regulates trade policy resulting in frequent eclipse of the country's commercial interests by a larger foreign policy goal, namely, enhancing Brazil's influence in Latin America and the world (HORNBECK, 2007, 8). Likewise, while the conclusion of meaningful trade agreements with developed economies such as the US and EU are critical to Brazil's long-term economic self-interest, the Brazilian government gives priority focus to its MERCOSUR leadership role and to expanding trade ties with Africa, Asia and the Middle East and particularly with non-traditional, emerging-market trading partners such as India and China (RIBANO, 2007, 12).

Traditionally bilateral relations have been dominated by government agencies and agents but that has changed recently as more and more non-governmental actors begin to interact directly. For example, societies now look to both business and government to address a wide variety of critical issues including the environment,

medical care and information technology (VOGEL, 1996, 147). Other important actors include non-profit organizations, for-profit entities, individuals, and religious organizations and militaries. The result is a more complex relationship as military, economic, political and cultural factors compete for a voice on the bilateral agenda. These issues typically include human rights, immigration, and the environment (that is not to say that government actors do not participate in these issues, just that they tend to become issues as the result of work done by non-governmental actors).

This increased interaction of non-government actors in government affairs can be at least partially attributed to an increase in government regulations, starting in the 1970s, in the areas of health, safety, and the environment as well as economic regulation and policy in areas which directly affect business such as tax, energy, and technology policy. Another affect of this increased interaction between business and government has been the flourishing of special interest groups (VOGEL, 1996, 149-150, 155). Vogel cites this as one of the most important developments in the relationship between business and government in the last twenty-five years.

### **2.2.2 Trade**

Economic stability, structural advantages, a superior position in global cost curves and political stability have put Brazil in the position of being a reliable upstream supply base for agricultural products such as soy, sugar cane, cotton and fruits and vegetables along with aluminum/alumina, copper, iron ore, nickel, pulp, and steel. (ANDRADE, FANTONI and JONES JR., 2007, 6). While domestic markets for these commodities are strong, they remain small in comparison to export markets.

For some 85 years the United States has been the single largest buyer from Brazil (WESSON, 1981, 112) (HIRST, 2005, 25-29). Brazil's import-substitution policies instituted in the 1950s were implemented largely against American manufacturers (WESSON, 1981, 115) with tariffs on manufactured good averaged over 250% (WESSON, 1981, 112). Between the 1970s and 1990s trade between these two nations oscillated dramatically from year to year, with both countries experiencing dramatic trade imbalances at various points (HIRST, 2005, 25). Since 2000 trade balance has been in Brazil's favor (Brazilian Embassy, 2007, 24) for various reasons

including a diversification of Brazilian trade partners, increasing trade with the EU nations and with its Latin American neighbors (HORNBECK, 2007, 6, 12).

However, now that Brazil maintains a fairly balanced trade regime, the United States continues to be Brazil's single-nation largest trading partner (19% of exports, 17% of imports). Other important trading partners include (2005 figures) the European Union (22% of exports and 25% of imports), Asia (20% of exports, 27% of imports with China alone accounting for 6% of exports and 7% of imports), Latin America (22% of exports, 15% of imports), Africa (4% of exports, 9% of imports), and the Middle East (4% of exports and imports) (HORNBECK, 2007, 12)<sup>4</sup>. In 2005, the value of Brazil's exports reached \$120 billion and the country's trade surplus was \$45 billion (RIBANO, 2007, 45).

#### **2.2.2.1 Trade Liberalization**

While both Brazil and the United States espouse trade liberalization as a goal, the nations have decidedly different approaches. Trade liberalization in Brazil was late and rather modest compared to other Latin American nations (ABREU, 2005, 2-3). Despite the fact that the U.S is Brazil's largest single-country trading partner, Brazil has resisted increasing trade liberalization with the large US market via the FTAA because the US model of liberalization is viewed as insufficiently balanced to meet Brazilian needs (HORNBECK, 2007, 12). Brazilian trade policy has a much more narrow focus than that of the US and issues mostly have a central theme of market access or regional trade dominance (HORNBECK, 2007, 12). The Brazilian strategy includes increasing bargaining power through the MERCOSUR coalition, slowing the multilateral trade liberalization process in areas where it may not be as ready to compete or may need additional time for economic adjustment, and continued protection of domestic industries in an effort to increase influence worldwide.

From the US perspective, it is best to simultaneously negotiate comprehensive multilateral, bilateral, and regional accords with partners that come to some sort of agreement on common issues (HORNBECK, 2007, 7). In theory, competitive gains

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<sup>4</sup> The Ministry of Development, Industry and Foreign Trade (MDIC) is the preeminent source of data regarding Brazilian imports/exports. For more detailed data regarding Brazil's trade balance see [www.mdic.gov.br](http://www.mdic.gov.br).

in one arena of negotiations can create incentives or pressures in other arenas, thereby foster additional agreements. In addition, American trade policy is decidedly comprehensive meaning that agenda items go well beyond traditional trade and market access issues, but also include issues peripheral issues such as intellectual property rights, investment and even human rights policy. The implication is that in order to negotiate with the US a nation may have to address other issues that are completely unrelated to the trade issue on the table. This theme is present in all negotiations involving the US and is useful to bear in mind while reading the following sections.

Trade liberalization is particularly complicated in both nations because intense domestic protectionist forces exist in both nations. These pressures are often related to industries which are tied to certain geographic areas, meaning that the politics of exposing these industries to open competition is often quite complicated and may depend on peculiarities of which and how many congressional districts (in the case of the US) or states these industries operate and thereby, which and how many senators and congresspersons may be mobilized by a particular issue<sup>5</sup>. Domestic politics should be considered when analyzing the formation of trade policies. For example, in the US protectionist interests (as defined by Abreu) tend to be geographically dissipated while export interests tend to impact few states with larger populations. In Brazil the reverse is true: There exist several lesser-populated states with keen interest in opening up US markets and a relatively small number of states likely to have a strong dedication to protectionist measures (ABREU, 2005, 98). The structure of the legislative bodies and electoral processes in both nations also impact protectionist and export interests.

The positions put forward by both nations in bilateral trade disputes only seem to harden. The US continues to move toward broad hemispheric policy-making while Brazil would rather see more bilateral agreements, special treatment, and a commitment from the US to discontinue the implementation of discriminatory trade policies.

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<sup>5</sup> For a detailed analysis of the domestic distribution of interests involved in trade liberalization from a regional and a sectoral point of view see Abreu 2005.

### **2.2.2.2 Tariffs Structures**

One significant difference between Brazilian and American trade practices is the tariff structure. Despite the fact that US agricultural tariffs levied against Brazilian products are some of the more prominent trade issues cited by Brazil (HIRST, 2005, 27), Brazil has comparatively high average tariffs, as illustrated by the Figure 2 below.

Industrial exports, the category with the highest dollar value of exports from the US to Brazil, have an average tariff that is three times higher than that of the US equivalent. Conversely, in the category with the highest exports from Brazil to the US (agriculture), the difference in average tariff is relatively small (less than 2 percent). Also of note is the fact that although the US has one of the lowest tariff systems in world trade (an average of only 4.5 percent) discriminatory measures have resulted in application of average tariff of 45.6 percent on the fifteen top Brazilian exports to the US market (explaining the comparatively high standard deviation rate on US Agricultural tariffs). This group of exports represents 36.4 percent of Brazilian total exports. In comparison, the average tariff imposed on the top fifteen US exports to Brazil is less than 14.3 percent (HIRST, 2005, 27).

It is of no surprise than that in market access discussions the US is usually pushing for a reduction in industrial tariffs whereas Brazil focuses on some of the higher agricultural tariffs levied against imports (noting that the standard deviation from the average tariff rate of agriculture is much higher in the US than in Brazil.) The comparatively high standard deviation rates on US imports are reflective of Tariff Rate Quotas (TRQs) implemented to deter imports as a measure to protect certain US industries. The Brazilian Embassy notes that the US average agricultural tariff can mask the high cost Brazil faces from seasonal and out-of-quota peak US tariffs (Brazilian Embassy, 2007, 11).

**Figure 2: US and Brazil Average Tariff Rates**

Country	All Products		Agricultural Products		Industrial Products	
	Avg. Tariff*	Standard Deviation#	Avg. Tariff*	Standard Deviation#	Avg. Tariff*	Standard Deviation
United States	4.3%	11.3	8.5%	30.2	3.7%	5.1
Brazil	10.9%	6.8	10.2%	6.0	11.0%	6.8

**Data source:** Inter-American Development Bank via personal correspondence.

\* Simple average tariff for calendar year 2004.

# Standard deviation as measure of how much tariffs can vary from average.

Source: (HORNBECK, 2007, 22)

### **2.2.2.3 Trade Regimes**

Trade issues are central to the relationship between Brazil and the US. Both nations are heavily involved in regional trade blocs and are seen as leaders on hemispheric trade issues. Some of these trade issues overlap resulting in sometimes converging—sometimes diverging—interests. In recent years, Brazil has focused on developing MERCOSUR and establishing free trade agreements with other South American nations while establishing better MERCOSUR-European Union ties and pushing for greater gains in the Doha round of WTO talks (RIBANO, 2007, 12). The US has also been active in the Doha round, and in concurrence with its own trade liberalization ideology has pursued several bilateral and subregional trade agreements, while simultaneously pushing for expansion of both NAFTA and the FTAA.

Brazil has been an active participant in multilateral trade negotiations regarding the rules and regulations governing institutional trade regimes. Two issues that continue to dominate the Brazilian agenda are the ending of agricultural trade subsidization—with complaints lodged primarily against the EU and US (RIBANO, 2007, 19-20) shared views with the US (HIRST, 2005, 31). Another important issue for Brazil is increased flexibility in multilateral agenda-setting; i.e., they would like to have more say in which issues are actually addressed and debated in world forums.

### **2.2.2.3.1 World Trade Organization**

The World Trade Organization (WTO) has proved to be a primary forum for the negotiation of major trade-related differences between US and Brazil, particularly on issues related to agriculture. In 2003 Brazil led the G-20 group of developing countries in insisting that developed countries agree to reduce and eventually eliminate agricultural subsidies. For nearly a year, negotiations completely broke down until ministers agreed to a new framework for negotiations that came to be known as the Doha Round. So far, the round has been evaluated as one of mixed results: By 2005, much to the disappointment of Brazil and at the behest of the EU, the elimination of agricultural export subsidies was delayed until 2013 (not 2010), although they agreed to eliminate cotton subsidies by 2006. Against the U.S.'s wishes, formulas for reducing tariff barriers in the manufactured goods and service sectors were largely postponed. The round was originally scheduled to conclude in 2006 but talks broke down again in July, 2006, and continue today, due to yet another deadlock on agricultural tariffs and subsidies.

There is plenty of blame to go around regarding the missed deadline for completing the round: the EU accused the US for not improving its offer of domestic support and the US countered that it was waiting on new offers to be put forward by the EU or the G-20, making an improved offer impossible.

### **2.2.2.3.2 Free Trade Area of the Americas**

Thirteen years after 34 countries announced their intention to create the Free Trade Area of the Americas (FTAA) implementation talks stalled indefinitely due to an impasse between Brazilian and American officials (co-chairs). Brazil wanted to use the FTAA forum to discuss agricultural subsidies and tariffs, while the US maintained that these issues—already being addressed by the WTO—should be resolved there. In response, MERCOSUR nations relegated issues that were high on the US agenda such as foreign investment, intellectual property, public procurement, services and competition for discussion only in the WTO (ABREU, 2005, 9). Furthermore, the agenda was complicated by different issue interests: the US wanted to include intellectual property rights and investment, while Brazil was more concerned with minimizing anti-dumping and countervailing duties.

Crucial issues items on the FTAA negotiations process included developing a framework to oversee and enforce the agreement, the distribution of cost/benefits amongst unequal members, and linking the agreement with macroeconomic situations of the various member nations. This last item was particularly important to Brazil, who felt the need to link any new negotiations to support previously instituted economic reform measures (such as economic deregulation, reductions of substantial restrictions to foreign capital, economic openness, and an expanded privatization initiative (HIRST, 2005, 32-38). Brazil's objectives were to institute a limit to unilateral protectionist instruments, freer access to markets in sectors in which its products are competitive, minimum restrictions on human and social rights, and protections for sensitive sectors (ALBUQUERQUE, 2005, 140).

The closest negotiators were able to come to an agreement was a framework that some have dubbed as "FTAA light". In it, all of the countries party to the agreement would agree to a core set of obligations and those favoring a more ambitious agenda could negotiate plurilateral agreements, to complement the core obligations. Efforts completely fell apart after a February 2005 meeting when delegates were unable to even agree on FTAA common obligations meanwhile, disagreements continued to mount between the co-chairs. By November 2005, when the US attempted to initiate another round of talks, Venezuela and other MERCOSUR countries resisted insisting on a delay in negotiations until progress was made on agricultural subsidy issues in the global WTO Doha round talks.<sup>6</sup> The bottom line was that protectionism in both Brazil and the US was the main contributor to the failure of FTAA talks (ABREU, 2005, 10).

The US remains hopeful at implementing the idea of a NAFTA-like region-wide agreement but Brazil seems to see little advantage to an FTAA at this point in time, particularly one that does not address its principle interests, and so appears to remain content pursuing its goals in the WTO and MERCOSUL while maintaining the status quo regarding FTAA, at least for now (RIBANO, 2007, 16).

Regarding FTAA negotiations Hirst writes:

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<sup>6</sup> For a detailed analysis of FTAA negotiations see Abreu.



In Brazil, the FTAA became a relevant subject for public discussion, and growing nationalistic consensus has built up, supported by business sectors, labor movements, and partisan and academic segments. In all cases there has been a growing concern regarding the asymmetrical economic effects of trade liberalization if the United States does not review unilateral protectionism. The long-lasting consequences of U.S.-Brazil commercial disputes, particularly those in which Brazilian exports have been hurt by US nontariff barriers, have helped to sustain this consensus (*HIRST, 2005, 35*).

#### **2.2.2.3.3 North American Free Trade Agreements**

The North American Free Trade Agreement (NAFTA) is one of two major free trade areas in the hemisphere. Its members include Canada, the US and Mexico. The goal of the US is to essentially expand NAFTA to include the rest of the nations in the hemisphere (RIBANO, 2007, 16).

#### **2.2.2.3.4 Southern Cone Common Market**

The Southern Cone Common Market (MERCOSUR (or MERCOSUL, as it is known in Brazil)) is a common market composed of Brazil, Argentina, Paraguay and Uruguay and Venezuela. Established in 1991 it is the prominent trade bloc in South America. Chile, Bolivia, Peru, Colombia, Ecuador, Venezuela and Mexico joined later as associate members that have no voting rights and need not observe the common external tariff. Mercosul and the Andean Community of Nations signed a trade Pact in October 2004 leading to the creation of the South American Community of Nations (the nations mentioned above plus Guyana and Suriname). Venezuela's accession as a full member in December 2005 has, according to some analysts, added a decidedly anti-American factor to the pact (RIBANO, 2007, 12).

One of Brazil's priority agenda items has been the strengthening of MERCOSUR and the development of a MERCOSUR-European Union Free Trade Agreement.

#### **2.2.2.3.5 Trade Preferences**

In December 2006, the US Congress extended trade preferences for Brazil under the Generalized System of Preferences (GSP) (RIBANO, 2007, 2). However, perhaps in response to Doha round friction, Congress set threshold limits that may limit trade preferences for some Brazilian exports as compared to previous years. The US

Congress has also used GSP as a tool to pressure the Brazilian government to address piracy issues (HORNBECK, 2007, 24).

#### **2.2.2.4 Trade Disputes**

Trade relations between the two nations intensified during the 1990s with the value of two-way trade increasing from \$12 billion in 1990 to some \$23 billion in 1999. During this period US exports to Brazil increased dramatically (doubling between 1994 and 2000) while Brazilian exports to the US remained relatively stable. Exports to the US have continued to grow at a stable rate reaching a value of US\$26.4 billion in 2006 and contrary to popular perception are still more than those of other BRIC nations (Russia, India and china) (Brazilian Embassy, 2007, 5). Brazil's principal exports to the US include petroleum, airplanes, steel, mores and car parts, and most recently, ethanol.

##### **2.2.2.4.1 Brazilian Complaints Against US Policies**

US trade policies towards Brazil have been a point of contention in bilateral relations for many years. Despite having the one of the lowest tariff rates in the world (an average of 4.5 percent) protectionist and discriminatory measures have resulted in the levying of an average tariff of 45.6 percent on the fifteen top Brazilian exports to the US, which account for 36.4 percent of Brazilian total exports (HIRST, 2005, 27). Meanwhile, the average tariff imposed on the top 15 American imports to Brazil does not surpass 14.3 percent. The Brazilian embassy cites anti-dumping practices, heightened tariffs, sanitary and phytosanitary, as well as agricultural subsidies impediments to Brazilian exports to the US market. According to US Congressional reports, "Brazil also objects to product-specific barriers that include restrictive tariff rate quotas (TRQs — sugar, orange juice, ethanol, and tobacco), subsidies (cotton, ethanol, and soybeans), and trade remedy cases (steel and orange juice)" (HORNBECK, 2007, 21).

In addition to barriers put in place by the US government to protect US industries Brazilian industries have experienced increased difficulties in maintaining market share in US markets. Footwear and textiles have been out-priced by Chinese competitors (HIRST, 2005, 28). Several Brazilian officials share the perception that negotiations with the United States on some of the longer-standing trade issues have

reached the point of exhaustion government to government negotiations and the US is much more interested in unilateral action instead of bilateral or multilateral negotiations resulting in very public escalation of tensions and misunderstandings in official circles (HIRST, 2005, 29). One result has been for Brazilian officials to seek other manners to foster Brazilian interests in American circles, mobilizing Brazilian caucuses to support inter-firm connections, Brazilian businesses in the US and media access to the Brazilian point of view.

In general, Brazilian complaints against the US center on a perceived lack of reciprocity on the part of US policies, particularly in the protection of the agricultural industry. Of course, these bilateral trade and economic disagreements spill over in to multilateral trade negotiations as well as diplomatic relations and the manner in which they are resolved has changed dramatically since the creation of the WTO in 1992, since which time US Brazil trade disputes have been elevated to a new level of visibility in the international arena. Multilateral trade organizations have also inherently affected the nature of trade agendas in both the US and Brazil. The creation of the NAFTA and the MERCOSUR has solidified both nations' positions as leaders in their subregional economic cone. These positions perhaps came to a head in the Free Trade Agreement for the Americas negotiations, which are currently at a deadlock.

#### ***2.2.2.4.2 US Complaints Against Brazilian Policies***

The United States Trade Representative (USTR) cites several complaints against Brazil. USTR lists a number of complaints against Brazil, largely centered on cumbersome import requirements, high tariffs, sanitary & phytosanitary requirements and prohibited imports. Intellectual property rights are viewed as inadequate and lacking enforcement while the services trade and investment industry cites several complaints including restrictions on audio visual, telecommunications, financial (insurance) and express delivery service industries. Since these two areas are particularly important to US competitiveness, it would like to see more Brazilian concessions (HORNBECK, 2007, 24-25)

The US also expresses concern of Brazil's economic policies. The political changes that came with the Collor administration brought expectations that Brazilian economic

policies would reform to align with the mainstream liberal formula of economic liberalization results in stabilization. However Brazil has not totally abandoned its industrial development strategy in favor of free-market. Four economic dimensions continue to create tensions between the two nations. US gripes against Brazil center on what the US and Washington-based international financial institutions, such as the International Monetary fund (IMF) and the World Bank, view as too-slow adherence to liberal economic policies. Criticisms call for more transparency in privatization, more effective enforcement of fiscal reform and faster movement to market liberation, arguing that Brazil should face lack of competitiveness of its industries, as well as criticism for its heavy taxation system (close to 30 percent of gross domestic product)—all of which make investors weary or nervous.

The positions put forward by both nations in bilateral trade disputes only seem to harden. The US continues to move toward broad hemispheric policy-making while Brazil would rather see more bilateral agreements, special treatment, and a commitment from the US to discontinue the implementation of discriminatory trade policies.

Following below is a brief summary of several major disputes that currently exist between Brazil and the US as well as some disputes that have been solved in the past, with an eye towards identifying factors that may contribute to successful resolution (in Brazil's favor).

#### ***2.2.2.5 Major Issues on the Brazil-US Bilateral Agenda***

##### ***2.2.2.5.1 Specific Trade Issues***

Upon examining specific bilateral relations, trade issues are the most usual of Brazilian objections to US policies, and these usually center on protectionist measures implemented to protect American industry. Brazilian imports in certain industries, much like those from many other countries, were too cheap for American industry to compete with. Thus, under an 1890 law, such imports are subject to special tariffs or strict quota limits. These policies were developed and implemented based on internal US political needs and were in no way instituted to pressure or influence Brazilian foreign policy, nor to exert influence on the region. In addition to

bilateral trade issues the two nations have interacted frequently on trade regimes or blocs resulting in disputes perhaps the most prominent of which is the hemispheric free trade negotiations—once a centerpiece of US policy in Latin America—that have now been stalled indefinitely. However, the nations are continuing to work towards forging a common position at the WTO-Doha round of trade talks.

American gripes against Brazilian policies are generally more ideological issues such as Human Rights, Environmental, and Intellectual Property Rights. For many years, the trade deficit was so large that Americans could not very well complain about Brazilian exports to Brazil when American exports to Brazil were much larger and more vulnerable. Also, because Brazilian exports to the US were much lower, any issues that arose were generally much more important and emotional to Brazil than to the US: “Ideals clearly become more compelling when reinforced by self-interest, but it may be unfair to insist that the grosser reason is the real one.” (WESSON, 1981, 164).

However, it is important to note that interests in trade issues exist in and can compete on various levels and between numerous actors, resulting in unclear, if not contradictory, policies.

American perception of Brazilian Trade Policy is neatly summed up in one analyst’s report:

Brazil’s trade strategy can be explained only in part by economic incentives. Its “trade preferences” also reflect deeply embedded macroeconomic, industrial, and foreign policies. Whereas US trade strategy emphasizes the negotiation of comprehensive trade agreements on multiple fronts, Brazil is focused primarily on market access issues as they pertain to its economic dominance in South America. Brazil exercises this priority in all trade arenas, such as pursuing changes to agricultural policies in the WTO, expanding the Southern Common Market (Mercosur) in South America, and resisting the FTAA for lack of a balance conducive to Brazilian interests. (HORNBECK, 2007, 2)

### **2.2.2.5.2 Energy Security**

#### **2.2.2.5.2.1 *Nuclear***

Brazil is one of nine countries capable enriching uranium to generate energy. The endeavor began post-WWII as Brazil struggled against Argentina for dominance in Latin America but by 1991 the two nations had signed an agreement to use nuclear energy for peaceful purposes only. In 1994 Brazil joined the Missile Technology Control Regime (MTCR) and in 1997 it ratified the Nuclear Nonproliferation Treaty (NPT), the first of several multilateral nonproliferation regimes including the Nuclear Suppliers Group (NSG). Brazil is also a signee to the Treaty of Tlatelolco, which establishes Latin America as a nuclear-weapon-free zone.

In 2004 Brazil commissioned a uranium enrichment plant to be built in Resende, near Rio de Janeiro causing some international observers to doubt Brazil's commitment to non-proliferation despite membership in the MTCR, NPT, NSG and signing of the Treaty of Tlatelolco because of the fact that uranium enrichment can be used for peaceful purposes (such as fuel for nuclear power plants) or for military purposes (nuclear weapons). In 2005, citing security and proprietary concerns Brazilian officials refused full access to the centrifuge plant for inspectors from the International Atomic Energy Agency (IAEA). The dispute was resolved later that year when the Bush administration sided with Brazilian officials asserting that limited inspections were sufficiently compliant with international obligations, confident that Brazil has a fully operational nuclear enrichment capability and should not be required to desist. Nevertheless, some critics continue to call for Brazil to desert its uranium enrichment aspirations (RIBANO, 2007, 18-19).

#### **2.2.2.5.2.2 *Ethanol***

Brazil has been lauded in both the US House and Senate hearings as a country that has successfully reduced its reliance on foreign oil by using alternative energy sources. Brazil is the world's largest producer and consumer of sugarcane-based ethanol, considered to be more efficient than corn-based derivatives produced in the US (BUDNY, 2007, 4-5). Because Brazil has successfully reduced its reliance on foreign oil by developing alternative energy sources the nation has been the focus of attention and accolades of US officials (RIBANO, 2007, 2) while simultaneously

raising concerns due to recent progress in the production of enriched uranium as part of a nuclear energy plan (RIBANO, 2007, 16-18).

Ethanol use accelerated in Brazil starting in 2003 when auto-makers began to introduce flex-fuel vehicles that were capable of running on gasoline, ethanol, or a mixture of the two. Today, ethanol is used on 40% of motor fuel produced in Brazil and is extremely competitive with gasoline, after years of government subsidies directed at the burgeoning industry (RIBANO, 2007, 16). Ethanol fuel consumption in the US has also increased greatly in recent years thanks in part to legislation requiring the use of more renewable resources in fuel production coupled with significant increases in crude oil prices making ethanol productions economically viable in the US. Projections suggest that despite increased domestic consumption, US will need to import more foreign-produced ethanol as corn-based production falls short of needs (BUDNY, 2007, 1) (RIBANO, 2007, 17).

This leads to one major issue between Brazil and the U.S.: tariff rates on Brazilian-produced ethanol. Brazil does not fall under the umbrella of any number of trade regimes (Caribbean Basin Initiative, Central American Free Trade Agreement, and the Andean Trade Preferences Act, among others) that are party to duty-free access for sugarcane-ethanol imports to the US market (YACOBUCCI, 2007, 2-3). Some sugarcane is processed in Caribbean plants but exports arriving directly from Brazil are currently subject to a 54-cent-per-gallon tax, plus a 2.5% tariff. In 2006 legislation was introduced in both houses of the US Congress to eliminate these taxes on all foreign-produced ethanol but legislators opted to extend the tax until 2009.

In 2007 Brazilian and US officials signed a partnership agreement to share in the cooperation, production, and use of ethanol throughout Latin America. In addition to technology-sharing between the two governments (and other countries) the partnership also seeks to develop common ethanol standards throughout the region. Both nations stand to profit from this agreement as Brazil will likely reach its goal of developing ethanol into a global traded commodity while the US will benefit from having additional producers and standardized production in the region. In addition to these economic benefits possible political benefits include improved US image in

Latin America and lessening the influence of oil-rich Hugo Chávez of Venezuela (RIBANO, 2007, 18).

#### 2.2.2.5.2.3 *Biofuels*

The issue of biofuels, and the goal of developing ethanol into an international commodity, presents an opportunity for close cooperation between Brazil and the US. In fact, the Brazilian Embassy in Washington considers cooperation with the aim of stimulating the development and utilization of inexpensive, clean and sustainable energy resources as one of the pillars of the relationship between these two countries (Brazilian Embassy, 2007, 5). As the two largest producers of biofuels in the world (jointly providing 72% of world supply in 2005) (BUDNY, 2007, 5), it is in the interest of both countries to develop jointly a strategy on energy cooperation including technology-sharing, the coordination of public and private investment and the development of international standards. Presidents Lula and Bush have taken a step in that direction with the signing of the 2007 energy cooperation accord, which focuses on the development of sugar-cane based ethanol fuel. These nations share the belief that only through the creation of a truly international biofuels market will they develop their own internal market and impact their energy matrix in the way that they would like.

However, cooperation on biofuels remains a rather contentious issue as the US refuses to cut its sky-high tariff (about 54 cents a gallon) on Brazilian ethanol. President Lula continues to push for relief on this front (HORNBECK, 2007, 23), arguing that cooperation would be substantially enhanced with more fair tariffs. This barrier is largely detrimental to Brazil as other ethanol-producing nations in the Caribbean basin are subject to much lower tariffs. The matter is not on the Doha agenda and not likely to be remediated soon.

Meanwhile, the subject of biofuels has evolved in to a matter of international concern as environmental and human rights groups voice concern over the impact of increased planting and processing of sugarcane and, in the case of the United States, corn for the production of ethanol. Despite the fact that less than one percent of energy is produced from renewable resources (BUDNY, 2007, 4) critics of plans to expand ethanol production express concern over the impact of increased production



on the costs of staple products, such as corn and sugar, for the population. The two most efficient sources of renewable fuel—sugar and palm oil—come from developing countries and present a promising opportunity for sustainable development. In the US intervention techniques, such as subsidies for ethanol producers or protection against cheaper imports, are used to stimulate competition with fossil fuels.

#### 2.2.2.5.3 Human Rights

The US State Department assesses Brazil as a nation in which human rights are largely supported and enforced by the government but where many abuses still exist at the municipal and local level (United States Department of State, 2006, 2). Of particular concern are human rights incidents related to police abuse, race discrimination and trafficking of women and children. There is a close link between US government aid designated for drug trafficking and that allocated for human rights defense and many of the funds earmarked for police training and education in Brazil have a goal of combating both problems. Human rights concerns are also the focus of many nongovernmental actors, both domestically and internationally.

Arguably, violent crimes and human rights abuses by police are the most pressing issues facing Brazilian society today. A string of related urban crime problems including drugs, violence, corruption and brutality—both in law enforcement and in on the streets are threatening citizens' security in Brazil. Latin America having been identified as the most violent region in the world, 5 of the 15 cities with the highest homicide rates are Brazilian.

Some human rights groups have cited extra-judicial killings by police and prison authorities as the number human rights issues in the country. Likewise, violence between gangs as a result of turf wars and drug-trafficking has been a cause of increasing concern in larger Brazilian cities. In December 2006, once such group torched buses and attacked police stations in Rio de Janeiro, resulting in some 25 deaths and clashes continue in urban areas between drug gangs, vigilante militias (composed of off-duty police and prison guards, which are now charging citizens to "protect" them from the drug gangs) (DOWNIE, 2007) as well as on duty police operation. The result is frequent injury and even death of civilians due to stray bullets, not to mention the casualties of those directly involved in the battles.

Another major component of the justice systems, the prison system, is overwhelmed as evidenced by the calculated accommodation deficit of 90,360 in 2005 and conditions ranging from “poor to extremely harsh and life threatening” (United States Department of State website, 2005). This has led to the creation of a syndicate of prisoners, the PCC (First Capital Command), with some reported 6,000 dues-paying members who exert control over more than 140,000 prisoners in the São Paulo prison system alone (HANSON, 2006). Clashes between prisoners and guards have led to not-infrequent rioting and looting, peaking with incidences in May, July and August 2006 which destabilized the city of Sao Paulo for several days and led to the reported deaths of nearly 200 prisoners and international criticism at the brutality exerted in order to restore order (HANSON, 2006).

Another major human rights concern is the trafficking of persons—particularly women and children but also agricultural workers employed under forced-labor conditions. The type of trafficking differs depending on the region: labor trafficking in the Southern Amazon and tri-border region (Brazil, Paraguay and Argentina) and the interior; sexual tourism in Rio de Janeiro, Recife, and São Paulo; reintegration and border shelters in the Tri-border region (Brazil, Paraguay, and Argentina). Although the Brazilian government has made some efforts to counter the trafficking of persons, the US government continues to cite Brazil as a country that needs to make improvements in these areas (United States Department of State website, 2006) and continues to pressure/support Brazil to continue with efforts both through Governmental and non-governmental programs. Brazil, with the support of the USAID organization revised its penal code making internal and trans-border trafficking with the intent to sexually exploit federal crimes. However, it did not include provisions addressing trafficking for forced labor. Brazil was one of eight countries selected to receive \$50 million allocated for anti-trafficking-in-persons assistance from the US government in July 2004 in addition to \$8.2 million allocated by the Senior Policy Operating Group. These funds are employed to conduct anti-trafficking operations; create shelters for sexual tourism victims coupled with a public awareness campaign aimed at foreign travelers; reintegration programs in all regions, as well as training for law-enforcement teams, judges and prosecutors.

#### 2.2.2.5.4 Patents/Intellectual Property Rights

Despite having numerous Intellectual Property Rights (IPR) laws on the books the United States Trade Representative (USTR) position is that the program is insufficient. Specific problems include a 5-6 year backlog in processing patent application and a lack of data confidentiality protection for pharmaceuticals. Enforcement is also a problem in Brazil which leads to significant piracy losses for US industry (particularly video, audio cassette and DC), and for Brazilian industry and tax revenues as well (Brazilian Chamber of Deputies, 2004, 127, 267-269). Brazil has made some attempts at increased protection however efforts are hampered by a lack of enforcement resources. As a result, Brazil is reluctant to sign on to any Free Trade Agreement that includes enforceable IPR provisions, because it simply does not have the means to ensure compliance (HORNBECK, 2007, 24-25).

Brazil has had a strong HIV/AIDS prevention program since it began in 1985 under the Cardoso administration. By 1996, the program was able to provide antiretroviral (ART) drugs to all people living with the disease, currently some 172,000 Brazilians have access to free generic versions of ART drugs, some of which are locally produced and financed by the Brazilian government (produced under the compulsory licensing provision of its patent law which led to a subsequent 80% drop in the cost of treatment there.) The result has been stabilization in the incidence of HIV/AIDS since 1997 and greatly increased survival time for those diagnosed of and treated for the disease. However, the decision to break the drug patent and produce generic ART drugs has been met with protest from the United States and the international pharmaceutical industry. In May 2001, the United States filed a complaint with the WTO (later withdrawn) on the grounds that this practice violates the Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement and limited the ability of pharmaceutical companies to develop new products there claiming additionally that such practices removed profits (and thus incentives) and funding for the development of further treatments and are therefore an essential tool to protect intellectual property right. Brazil (and other developing countries) argued that enforcement of TRIPS inhibited their ability to fight public health emergencies in a cost-effective manner. The WTO sided with the Brazilian case, waiving part of the TRIPS rules allowing for the export of generic drugs to countries combating widespread public healthcare issues/outbreaks (RIBANO, 2007, 25).

While Brazil continues to manufacture and even export ART drugs to several African countries ART it is still necessary to purchase newer, more effective medications that are released as patients develop resistance to older forms of the drugs. The Brazilian government claims that these high-priced newer medications have caused spending on taxpayer funded treatment programs to increase by up to 75 percent over the past two years (LAKSHMANAN, 2007), despite continuous, laborious negotiations between the Brazilian Ministry of Health and the pharmaceutical companies that produce such drugs. Reluctantly, due to rising costs and the apparent insustainability of the tax-payer funded drug program, President Lula authorized in January and May 2007 the breaking of drug patents despite fears of backlash from pharmaceutical companies and trade sanctions from the US government (RIBANO, 2007, 25). Under WTO rules, countries can issue a “compulsory license” to manufacture or buy generic versions of patented drugs considered to be critical to public health, and President Lula argued breaking the patent is the only way to ensure access to the drug by all those who need it (AMARAL, 2007). The battle over Brazil's right to begin making generic copies of critically needed medicines has activists, health officials, and pharmaceutical companies defending the sustainability of their causes and the outcome has international implications for intellectual property rights and the future of AIDS treatment in both rich and lesser developed countries.

Another point of contention between the nations is the US policy which prohibits the allocation of funds from the President's Emergency Plan for AIDS Relief (PEPFAR) to any group or organization that does not have a policy “explicitly opposing prostitution and sex trafficking” (RIBANO, 2007, 25). Because Brazilian officials believe that prostitutes should be educated and play a role in HIV/AIDS education, the country has been denied \$48 million in USAID funding for HIV/AIDS programs. (REEL, 2006).

#### 2.2.2.5.5 Environmental Concerns

Management of the Amazon rainforest, a majority of which falls within the borders of Brazil, is a matter of international interest. The Brazilian government has created conservation areas and stepped up enforcement efforts to curtail alarming

deforestation rates. However, many international observers (RIBANO, 2007, 27) assert that the only way to combat further deforestation in a way that will significantly reduce carbon emissions and the loss of Amazon diversity is via coordinated action must be taken by the international community (including the United States). One such effort is the U.S.-Brazil Common Agenda for the Environment which seeks to “promote proper land-use trends over large geographic areas while encouraging environmentally friendly income generation activities for the rural poor,” supported by USAID. The FY2005 allocation for USAID environmental programs in Brazil was \$6.1 million, and the FY2006 was \$5.1 million. USAID also initiated the Amazon Basin Conservation Initiative in FY2006. From FY2006-FY2011, USAID plans to make an initial investment of US \$50 million to support community groups, governments, and public and private organizations working in Brazil and other countries in the Amazon Basin in their efforts to conserve the Amazon’s globally important biodiversity.<sup>7</sup>

#### 2.2.2.5.6 Counter Narcotics/Counter-Terrorism

In the 1980s the counter-narcotics efforts became a major agenda item for the US. As a part of these efforts strong cocaine supply interdiction measures were implemented with unintended consequence of creating a lucrative coca and cocaine industry in the South American region in response to skyrocketing cocaine prices. In a region that was economically devastated and with the help of generally unregulated weapons sales wealthy and powerful drug cartels quickly came to control the production and distribution of illicit drugs throughout Latin America (HIRST, 2005, xiii). For several years the US has been cooperating with nations in the region, including Brazil, in an effort to curtail the supply of drugs. In recent years Brazil has stepped up counter-narcotics efforts with its South American neighbors, implementing anti-money laundering and drug-trafficking measures (RIBANO, 2007, 15).

While Brazil is not among the major drug-producing countries, it is considered a major conduit of cocaine, marijuana, and some heroin as well as an area where

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<sup>7</sup> See [[http://www.usaid.gov/locations/latin\\_america\\_caribbean/environment/abci.html](http://www.usaid.gov/locations/latin_america_caribbean/environment/abci.html)] for more information, accessed February 20, 2007.

precursor chemicals and synthetic drugs are produced. It is considered to a bridge between the neighboring Andean countries that cultivate and produce it, to the European and North Americans that consume it (with a not insignificant amount staying in Brazil, the second largest consumer of cocaine in the western hemisphere). For these reasons the Bush administration includes Brazil on a list of major drug-producing or transiting countries (United States Department of State, 2005).

Drug interdiction efforts has been an important topic on the bilateral agenda since the early 1990s and collaboration has been codified in the form of several agreements the first of which was signed in 1994, followed by an updated Memorandum of Understanding in 1996 and the Mutual Legal Assistance Treaty of 1997<sup>8</sup> (which entered in to force February 21, 2001 (US Department of State, 2007)) as well as a permanent connection between the White House Office of National Drug Control Policy and the Brazilian Antidrug Secretariat. Both nations' drug enforcement officials are invited to observe one another's annual training exercises. In addition to bilateral cooperation, the nations are party to several multilateral counter-narcotic activities such as the U.N. Drug Control Program, the OAS Drug Abuse Control Commission.

In addition to counter-narcotics efforts Brazil cooperates with the US on counter-terrorism and, since September 11, 2001, related anti money-laundering efforts. Brazilian and American agencies work together by sharing information and by conducting joint operations.

## ***2.3 Relationship from Perspective of Brazilian Business Community***

### ***2.3.1 Acknowledge and Identify Differences***

Hirst characterizes Brazil's self-perception as "...a global trader in need of greater access to markets and assumes a defensive posture toward new trade restrictions" (HIRST, 2005, 31). Albuquerque's characterization of the Brazilian position

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<sup>8</sup> This treaty seeks to improve effectiveness of judicial assistance and to regularize and facilitate the exchange of information in judicial cases involving Brazil and the US.

throughout the FTAA negotiations supports this characterization (ALBUQUERQUE, 2005, 136-144). Alternatively, the US perceives itself as a nation that is obligated to protect its developed industries and constantly applies pressure to Brazil to deepening its open-market policies and face and lack of competitiveness of its industries (HIRST, 2005, 20).

### **2.3.1.1 Viewpoints**

One Latin American author described the Brazil-US relationship as having, “faced cyclical crises of expectations caused by erroneous calculations on both sides (HIRST, 2005, xvii). From this point of view, each decade brought a new disappoint in the lack of recognition from the US. After World War II, Brazil was disappointed when it was not rewarded with special treatment after having fought against the Axis powers. Likewise, in the 1960s the Brazilian government expected economic compensation for containing domestic communist forces. The sentiment is a general lack of support and intervention in the 1950s when implementing economic development policies, in the 1980s for reversing the debt crisis and the 1990s during when navigating a period of regional financial turmoil.

Recent history has demonstrated a repeated divergent interests in the area of military actions: The Korean War in the 1950s, the Vietnam War in the 1960s, Central American interventions in the 1980s, the Persian Gulf war in the 1990s, and Mid-east Policies of the new millennium have all been sources of frustration to the US government as Brazil has refused to align militarily on these matters.

### **2.3.1.2 The System**

One major difference between the United States and Brazil is, to put it simply, the way things work. Foreign Policy has traditionally been much more centralized in Brazil, where policy is centralized by the Foreign Ministry, which follows general guidelines and political direction explicitly administered by the President. Thus Brazilian foreign policy is finely tuned between three actors: The president, the Minister of Foreign Affairs and the Brazilian Embassy in Washington. However, in recent times the Foreign Ministry has come to share responsibilities and the pressures of bilateral, regional and multilateral trade negotiations with the Ministries of Development and Agriculture, while sharing external monetary and financial

matters with the Ministry of the Economy. Likewise, domestic political involvement and pressure regarding trade negotiations in Brazil is a relatively new phenomenon and the system there is adjusting to the impacts of new actors on their foreign policy agenda.

American Foreign Policy is much less centralized. While the US State Department is the face of diplomatic relations, foreign policy is highly coordinated with two other important actors, The National Security Council and the US Trade Representative. External economic relations are a result of three government agencies: The Department of the Treasury, the Department of Commerce and the US Trade Representative. The President, the Congress, and other cabinet-level officials, as well as several non-governmental organizations, also play a significant role in foreign policy development. An intimate understanding of the American system—its society, its way of thinking, common motivations, decision-making mechanisms, administrative structure, shared values, internal contradictions, economic mechanisms, and cultural characteristics is crucial to domestic and bilateral agenda building for any nation (DA SILVA, 2007, 13) (ABDENUR, 2007, 8). Without a complete understanding of the American system, any nation engaging with the US may fail to understand the internal processes that lead to policy decisions or misjudge how the US may act in any given situation in which its own strategic interests are involved.

The result of the complex American system is a decidedly disconnected and inconsistent policy-building process that can leave Brazilian businesses and industries confused as to what agency is responsible for policy in the US, and how to engage. However, this fragmented system may also provide more opportunities for impact:

A distinctive feature of the American state is its decentralized structure, which provides numerous points of access to competing groups—both domestic and foreign. When a hegemonic state is liberal, the subordinate actors in the system have a variety of channels and mechanisms for registering their interests with the hegemon. (DEUDNEY and IKENBERRY, 2003, 109-110).

One mechanism which has been applied with more success recently is presidential-level diplomacy with a goal of improved communications and cooperation on global



and regional matters (HIRST, 2005, 41). Clear communication lines at the Presidential level are critical to establishing and communication the different positions held by each country on various issues, particularly in domestic politics of third countries. For example, Presidential level interactions during the Cardoso administration became a primary tool in handling various crises that occurred on the continent during that decade (i.e. 1995 war between Ecuador and Peru and 1996 instability in Paraguay). In 1997-98 the governments of Ecuador and Peru signed a peace treaty coordinated by Brasilia in permanent consultation with the governments of Argentina, Chile, and the United States. That same year, Brazil, the US and Argentina coordinated to prevent the overthrow of democratically elected Paraguayan President, Juan Carlos Wasmosy. Between 1995 and 2000 Brazilian President Cardoso met President Clinton five times and President Bush two times (HIRST, 2005, 112), and presidents Lula and Bush continue to have a strong working relationship (RIBANO, 2007, 2) evidenced by three meetings between October 2005 and April 2007. Collaboration on the containment of such regional issues has served to strengthen Brazil-US relations despite the nations not always sharing the same viewpoint.

Finally, it is important to note that as nongovernmental actors become more and more powerful and active regarding issues such as human rights, environment, immigration, etc. the bilateral relationship continues to deepen, in a way which it never has before.

### **2.3.1.3 Perception**

While perception and public opinion are important elements/considerations in any democracy, perception/image is not equally important in Brazil and the US but rather is relative to the importance of the relationship for each side. For example, we may suppose that American perceptions of Brazil matter more than Brazilian perceptions of America simply because perceptions in Brazil of the United States have not traditionally weighed in on bilateral issues. There does, however, seem to be a shift afoot as the US becomes more sensitive to its bully image in Latin America.

As mentioned in the introduction, the general perception of the Brazil-US Relationship is of the American hegemonic superpower exercising limitless power

and influence on its sleeping giant neighbor. This perception, in and of itself, creates problems as the tendency may be for Brazilian policy-makers to assume that that they already know all there is to know about it. Despite the massive presence of the US in Brazilian society it is remarkable to note that even among the most sophisticated and well-informed Brazilians such as academics, business executives, and journalists there is often a vast unawareness as to the internal workings and nuances of life in the US (ABDENUR, 2007, 13-14).

However, Wesson makes some interesting arguments counter to the perception of the American hegemon with limitless power. He writes,

It would seem that Brazil has enjoyed greater bargaining in such controversies [coffee exports, territorial waters, shoe exports] because: first, the general atmosphere has called for industrial states to make concessions to developing instead of vice versa; second, Brazil buys more from the United States than it sells [not true anymore]; third, the issues have been important for Brazil, secondary for the United States; and fourth, the Brazilian government is more monolithic than the American. It thus seems clear that US leverage on specific issues is very limited, unless this country is prepared to make a much larger economic or political investment in swaying or coercing Brazil than it has made in the past. And while diplomatic leverage is slight, the most effective US influence on Brazil is diffuse and unplanned, the general impact of one society, economy, and culture on another.” (WESSON, 1981, 167).

Former Brazilian Ambassador to the US, Roberto Abdenur, also supports this position stating, “Brazil in fact plays an important—and often decisive—role in establishing the terms and conditions under which such topics [on the international agenda] are addressed” (ABDENUR, 2007, 8).

This survey of the American business system and of US-Brazil bilateral relations provides the context for the case studies that are at the heart of this dissertation.

### **3 DESCRIPTION AND ANALYSIS OF DATA**

#### ***3.1 Case Studies at the Industry Level***

The principal question addressed by this research was How and Why do some Brazilian businesses have access to the American market system?

As delineated in 1.3 (Methodology) the propositions used to analyze the case studies are as follows:

- 1) Imports are relatively free of restrictions/regulations**
- 2) Issues are relatively more important to the Brazilian agenda than the American agenda**
- 3) Active representation in the US market system**
- 4) Issues have been addressed in multilateral arena**

### **3.1.1 Sugar**

Many countries, including the EU member-nations, the US and Japan (as well as several developing nations) subsidize sugar production and heavily tax imports, causing the price of sugar in these nations to exceed world market prices by as much as three times (JURENAS, 2007, 5-6). Since 1981 the sugar industry has been subject to federal protection in the US. Since it is after this is the point that Brazilian sugar exports to the US decreased dramatically (before the sugar program the US imported 55% of its sugar, today it imports around 17% (Brazilian Embassy, 2007, 7)) the period I will focus on in this case is 1981-present.

The US sugar program guarantees a minimum price of 18 cents per pound by ways of controlling supply—both domestic and imported-- (JURENAS, 2007, 7). International trade bodies such as the WTO have been the forum where lesser-developed sugar-producing countries, such as Brazil, argue that because these markets essentially bar imports by making them uncompetitive pricewise, international producers are doubly penalized because they receive lower prices on the world market than they would under free trade and because their access to the US market is limited. In an effort to remediate the situation, the US and other developed nations have created quotas under which sugar may be imported without the usual tariffs. In response to this practice, other nations that are not eligible to export sugar to the US under the quotas argue that such practices violate ‘most favored nation’ principals which essentially state that a nation granted such status will not receive lesser or worse treatment than any other nation.

In the US, in addition to WTO quotas, the production and importation of sugar is regulated not only by the United States Trade Representative (USTR) but also in conjunction with the US Department of Agriculture (USDA) which implements quotas and tariffs for this commodity. This means that any Brazilian exporter looking to send sugar to the US does not have a lot of leeway as to the amounts of sugar s/he can export because sugar exports must conform to the tight quotas established by regulating entities, conflicting with the first criterion **(1)** I have identified as necessary for successful entry to the American market. This case also does not meet the second criterion **(2)**, as it there exists a strong political lobby with American farmers and sugar production sector (JURENAS, 2007, 15) and there seems to be no sign that sugar subsidies and import quotas will be discontinued any time in the near future. In fact, the issue will likely become even more contentious because of the recent US-Brazil memorandum regarding cooperation in the development of biofuels, particularly of sugarcane-based ethanol production technology which Brazil has been developing over the past 30 years. This case also conflicts with criterion three **(3)** in that the sugar industry does not appear to have strong representation in the US system; on the contrary, there is a contingency of American farmers that are against Brazilian sugar imports and in particular, the expanding Brazilian sugar industry (WMI, LLC, n.d.). It is interesting to note, however, that there is a potential partner in the US system that could potentially act as allies to Brazilian sugar exporter interests: US manufacturers that used sugar in the production of food products and beverages generally favor opening up the US market to sugar inputs because they believe that it will, over time, lower their production costs (JURENAS, 2007, 15). However, there is no evidence in the literature that the Brazilian sugar industry has moved to partner up with these manufacturers. Perhaps this is because some of these same potential allies may not favor other domestic sugar related policies. The ASA (American Sugar Alliance) for instance is against the inclusion of sugar issues in FTA agreements citing certain domestic policies (including Brazil's sugarcane-ethanol policy) because they are not addressed by bilateral or regional negotiations.

Overall, the complicated issue of sugar trade has been more prominent in bilateral and regional Free Trade Areas (FTA) than in multilateral WTO negotiations. Brazilian negotiators in FTAA talks frequently pointed to increasing Brazilian industry access to US markets as one of their priority agenda items, a contributing factor to the failed

negotiations (JURENAS, 2007, 16). Clearly if the US objective of eventually eliminating all border protection on all imports within the FTAA, the sugar program as it currently exists could not continue. Therefore, I conclude that criterion number four **(4)** does apply to this case study but it is neither clearly positive nor negative in relation to the level of access to the US market granted to Brazilian industry. Consolidated tariff quotas as mandated by the WTO seek to regulate a market that is distorted by the sugar programs of several developed countries as they seek to protect their domestic producers from foreign competition. All interested parties are keeping a close eye on the ongoing WTO Doha round negotiations for which major stated objectives are the removal or lessening of trade distorting barriers (JURENAS, 2007, 19) and thus, if an agreement is reached, may significantly impact sugar trade issues worldwide.

### **3.1.2 Ethanol**

Barriers on ethanol imports to the US also originated in the early 1980s. For years, both Brazil and the US heavily subsidized ethanol production (sugar-based and corn-based, respectively) however Brazil has since ended its subsidization of the sugar-based ethanol industry, managing a highly-efficient process (considered more efficient than US corn-based derivatives (RIBANO, 2007, 16)) that has attracted the attention of US administrators seeking to increase domestic production (HORNBECK, 2007, 23) (RIBANO, 2007, 16).

Since this time a special tariff has been levied against ethanol fuel at the rate of 54 cents/gallon with a goal of increasing the competitiveness of domestic ethanol production against imports. However, some countries are privy to an exemption from this tax (Israel, Canada, Mexico as well as members of the Caribbean Basin Trade Partnership Act (CBTPA)) resulting in what seems to be an unfair trade environment for Brazil, particularly because at least some of this ethanol actually originates from Brazil and is simply reprocessed in the CBTPA (Brazilian Embassy, 2007, 8) (RIBANO, 2007, 16). In 2006 various pieces of legislation were introduced in the US Congress proposing to cap reprocessed ethanol, dissolve preferential tariffs, and even eliminate all together taxes on foreign ethanol (Brazilian Embassy, 2007, 8) (RIBANO 2007, 17) but none of the legislation passed, an indicator of the powerful

interests in support of those initiatives. Instead, the Congress voted to extend taxes on foreign oil through 2009 (RIBANO, 2007, 17).

In addition to this special tax, another barrier faced by Brazilian ethanol producers are US programs that domestic corn production, 13% of which is used for ethanol production (HORNBECK, 2007, 23).

Despite the barriers mentioned here (which Brazil continues to dispute) Brazilian ethanol exports to the US increased nearly 1% between 2004 and 2005, a value of nearly \$1 billion. In effort to reduce dependency on Petroleum fuel the US government passed the Energy Law of 2005 requiring the consumption of at least 7.5 billion gallons of ethanol per year, a move that is favorable to Brazilian ethanol exporters attempting to access the US market. . Obviously in order to reach this goal American production will increase dramatically, as will ethanol imports (RIBANO, 2007, 16) (particularly in the short term as domestic production is ratcheted up). It is interesting to note that,

The projected price of ethanol produced in Brazil is and remains lower than both the projected prices of unleaded gasoline and of US produced ethanol. In fact, the price differential between Brazilian and US produced ethanol was so great in 2006 that it was still cheaper to import Brazilian ethanol even after the 54 cents per gallon import tariff.” (BUDNY, 2007, 3).

In applying the criteria to the case of Brazilian ethanol exports to the US we see that criterion **(1)** and **(2)** are definitely not confirmed. The ethanol industry—and fuel in general—is stringently regulated by the US government and these issues are just as important to the US (if not more so) than to Brazil so the likelihood of any major policy shifts are slim to none. Despite the Ethanol Agreement signed in early 2007 between President’s Bush and Lula, Brazil was not able to convince the US to remove or lighten the tariff on ethanol imports. There is no evidence that criterion three **(3)** has been met either. In fact, because fuel is such a contentious and important issue it is doubtful that the American market will be opened up in any major way in the near future, unless Brazil is able to convince the US to lower the 54 cents/gallon taxed levied against Brazilian ethanol. Finally, there is no evidence that the last criterion **(4)**, Industry has addressed issues in multilateral arena, has been met (at least in terms of the trade restrictions placed on Brazilian ethanol exports to the US). It is

unclear what avenues exist to address this issue via multilateral organizations at present.

The results of this case, where none of the four criteria have been met, are demonstrative of how important these criteria are in determining access to US markets.

### **3.1.3 Tobacco**

The US tobacco industry is in a phase of transition. Title VI of the American Jobs Creation Act of 2005 rolled out the Fair and Equitable Tobacco reform program, under which the federal government announced a buy-out program to be implemented during period 2005-2014 (Brazilian Embassy, 2007, 8). This program eliminates domestic quota productions and guaranteed minimum pricing, including a buy-out program for domestic producers that had previously provided tobacco to meet federally mandated. These programs were implemented to force domestic producers to become more competitive with foreign producers, force those that are not able to remain competitive to move to the production of other crops, and remove federal funding of tobacco producers in the US

As a result, the American tobacco market is opening up to foreign competition. After the first two harvests under the new regime about half of the producers had stopped harvesting (Brazilian Embassy, 2007, 9). In 2005, Brazil was the world's leading exporter of, amongst other products, tobacco (RIBANO, 2007, 10) yet tobacco represented only 1% of total US imports from Brazil on a dollar value basis perhaps (an industry that is dominated in Brazil by BAT/Phillip Morris), largely due those high out-of-quota tariffs (350%) meant to deter imports and protect US producers (HORNBECK, 2007, 22, 24). Now, with the elimination of government subsidies to American tobacco programs we can expect to see a rise in the export of Brazilian tobacco to the US. Case in point, exports of Brazilian tobacco to the US rose by 4.1% in volume, 41% in value, in 2005 (Brazilian Embassy, 2007, 9). However, it is expected that some American producers will be able to remain in business and, in fact, compete with more efficient producers (such as Brazil). Analysts expect these producers to attempt to capture back some of the lost market (Brazilian Embassy, 2007, 9).

In reviewing the criteria for successful entry to the American market I find that as soon as the answer to criterion **(1)** changed, from yes to no (with the 2004 legislation) the case moved from one with extremely limited access to much more access to the American market. Likewise, criterion number **(2)** is now met because prior to this legislation the American tobacco industry was extremely insular and enjoyed legislative protection. Much like other agricultural issues, this issue was extremely important on the American agenda, particularly because it is one of the oldest agricultural industries and crops in the US. As soon as perceived interests changed (largely due to health concerns and costs associated with tobacco use), the issue lost importance on the American agenda and legislation protecting the industry changed, opening up the market to foreign producers. In analyzing criterion number **(3)**, it does not appear that the Brazilian tobacco industry has significant representation in the US system but in this case it didn't matter because US legislators sought to modify the restrictions for domestic political reasons. Finally, there is no evidence of criterion number four **(4)**, multilateral organization involvement in this issue, thus it appears to not have affected the results in this case.

#### ***3.1.4 Fruits and Vegetables***

The North American market continues to be an expanding one for Brazilian fruits and vegetable exports. Exports of fruits and vegetables from Brazil to the US increased from a mere \$9.2 million USD in 1998 to a record \$55.2 million USD in 2006 (Brazilian Embassy, 2007, 11). According to the Brazilian embassy in Washington, conditions for continued increase in Brazilian fruit & vegetable exports to the US market are favorable. However, they cite certain sanitary & phytosanitary requirements, as well as certification and paperwork delays, as significant barriers to Brazilian imports. These barriers proscribe the importation of the majority of fruits and vegetables and for those that are permitted a special license ("licença prévia") is required. This industry also faces some particularly daunting barriers due to requirements that certain fruits/vegetables enter through specific ports, delays in paperwork processing (particularly because these goods are perishable), and constantly changing regulations regarding the importation of such products, not to mention tariffs that vary depending on the dates imported (seasonal tariffs).



In analyzing the four proposed conditions I find that in this case study criterion **(1)** is not met because the US does maintain strict requirements on fruits and vegetables that are imported, though they do not have tight quota restrictions per se, there are seasonal tariffs that act as barriers to fruit/vegetable imports. I posit that criterion **(2)** is met because many of the fruits/vegetables that are imported to the US are not considered threats to US produce, or US production is not enough to meet demand, or farmers are satisfied with subsidies to make their products more competitive with foreign imports. On the other hand, agricultural issues and subsidization are very important to both countries (as evidenced by ongoing negotiations in the WTO Doha round) so this criterion can probably best be characterized as neutral. There is no evidence that the third criterion **(3)** Industry has active representation in the US system has been met. The WTO, particularly the Doha Round of negotiations, has been a platform for Brazil to push agricultural issues (in September 2003 Brazil led the G-20 in demanding that developed countries agree to reduce and eventually eliminate agricultural subsidies as part of any settlement (RIBANO, 2007, 19)) and also insisted in FTAA negotiations that any framework include measures to curtail agricultural subsidies and thus reduce the use of anti-dumping and countervailing duties. Therefore we can say that criterion number **(4)** is met, but it is not yet clear what will be the impact of addressing this issue in outside forums.

### **3.1.5 Cotton**

Cotton trade has been the subject of long-standing conflict between the US and Brazil. Among Brazil's major agricultural concerns regarding trade with the US are cotton subsidies (25,000 cotton growers are subsidized at an average rate of rate of \$1.7 billion per year in the form of direct payments, counter-cyclical payments, subsidized loans and other federal programs (HORNBECK, 2007, 23)). The US is the world's largest exporter of cotton, accounting for an average 40% of trade during the period 2001-2003 (SCHNEPF, 2005, 5). Most recently, the WTO was the forum in which Brazil and the US faced off regarding cotton subsidies.

In September 2004, in response to a complaint filed against the US by Brazil two years earlier, the panel report recommended that the "United States "withdraw" export credit guarantees and payments to domestic user and exporters, and "take appropriate steps to remove the adverse effects or withdraw" the mandatory price-

contingent subsidy measures” (World Trade Organization documents website, 2007). The US filed an appeal but the ruling was upheld by the WTO appellate body in March 2005 (SCHNEPF, 2006, 2). As a result, President Bush asked congress in July 2005 to modify the cotton subsidy program and in addition, FY06 budget reconciliation Congress repealed two offending programs. Brazil remains critical of remaining however, has thus far abstained for any retaliatory action (HORNBECK, 2007, 23), perhaps to save the matter as leverage for other items on the Brazil-US agenda.

In analyzing this case we see that the first criterion **(1)**, Industry is not subject to severe restrictions/regulations on imports to the United States, is not met. Cotton imports in to the US are in fact severely limited not only by the US government but by the WTO as well. Local grower competitiveness against imports is also guaranteed by heavy government subsidization. The second criterion **(2)**, Issues related to the industry are of relatively more important to the Brazilian agenda than the American agenda, is also not met. The US is the world's largest cotton exporter and Brazil is a major competitor (SCHNEPF, 2006, 1) and both nations have spent years addressing the issue through WTO channels so it is fair to say that the issues is equally important to both countries. Criterion **(3)** seems to be unsupported in this case, as there is no evidence that the Industry has active representation in the US system. However, criterion **(4)** Industry has addressed issues in multilateral arena, is absolutely characterized by this case. In fact, Brazil has been able to remediate what are viewed as harmful trade practices by the US. In this case, this criterion is the most important element in ensuring access to the US market. This case illustrates how cooperation at the industry level, coupled with diplomatic support, can overcome unfair trade barriers.

### **3.1.6 Steel**

Perhaps the most controversial trade issue between Brazil and the US is steel, which is highly regulated by anti-dumping measures and countervailing duties as well as other protectionist measures such as Voluntary Restraint Agreements (VRAs) and minimum price agreements (Brazilian Embassy, 2007, 14-17). In fact of the 37 complaints lodged with the US Commerce Department and International Trade Commission by the US against Brazil during the period 1989 to 2006, 67% were steel

products (Brazilian Embassy, 2007, 15, 18). New, even stricter, regulations were implemented in February 2000, mainly to protect against Japanese steel imports but American authorities have refused to apply special treatment to Brazilian steel imports.

In analyzing the criteria it is clear that the first **(1)** and second **(2)** criteria are clearly not met. The American steel industry files more antidumping and countervailing duty cases than any other US industry (HORNBECK, 2007, 23). As of January 2006 there were 16 such orders in place against Brazil, some dating back to 1986. Brazil estimates the total cost of these measures exceeds \$2 billion in lost sales and is, of course, eager to see relief from steel trade barriers (HORNBECK, 2007, 14-17, Brazilian Embassy 2007). In terms of the importance of this issue to the US versus Brazil, it seems that it is equally important to both countries. Recently, the steel industry case has been portrayed as one of that is critical to US National Security and thus deserving of special protection.

There is no evidence that criterion three **(3)** has been met nor have any allies been identified. The fourth criterion **(4)**, Industry has addressed issues in multilateral arena, is met and it has positively impacted the Brazilian steel trade exporters' case. In 2002 special safeguard duties of up to 30% on various steel imports were implemented by the United States. The measures were successfully challenged in the WTO and resulted in withdrawal.

One strategy to overcome barriers to access the US Market System was exercised by Gerdau steel (a Brazilian-based company), that bought Ameristeel in order to overcome market access problems.<sup>9</sup>

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<sup>9</sup> See Gerdau's official website at [www.gerdau.com.br](http://www.gerdau.com.br) for more information.

## 3.2 Comparative Analysis

### 3.2.1 Cross-case Analysis

I have summarized the results from the six case studies in the table below.

**Table 1. Summary of Case Study Results**

Evidence of Criteria				
Case Studies	1	2	3	4
Sugar	—	—	—	X
Ethanol	—	—	—	—
Tobacco	—	X	—	—
Fruits & Vegetables	—	X	—	X
Cotton	—	—	—	X
Steel	—	—	—	X

Analyzing the results in this way allows us to perceive some interesting points. First, none of the case studies revealed evidence of all the criteria analyzed, and only one of the case studies yielded negative evidence in all four criteria (Ethanol). We can surmise, then, that the six industries analyzed in this research face significant barriers in accessing the US market system.

We can also note that in none of the cases is criteria three **(3)**, Active representation in the US market system, met. This suggests that Brazilian industry may be neglecting potential allies and participation in the American market system. One Brazilian author has identified this potential as, “Cross border bi-national pro-trade coalitions”, (ABREU, 2005, 12) suggesting that such alliances could join the forces or export interests in both countries.

In contrast, four of the six cases show evidence of criterion four **(4)**, Issues have been addressed in multilateral arena. This suggests that Brazilian officials have learned to use multilateral negotiations as a tool in furthering Brazil's trade interests, particularly in terms of the WTO, where negotiations and cases decisions have resulted in a few, not insignificant, shifts in the balance of power (ALBUQUERQUE, 2005, 143).

Of the four criteria analyzed the one barrier that seems to be most common is criterion one **(1)**, Imports are relatively free of restrictions/regulations. All of the cases analyzed showed evidence that the US heavily regulates/restricts imports to the US market. The exception, tobacco, is an industry where restrictions have only recently been lifted, resulting in greater market access for foreign firms.

Criterion two **(2)**, Issues are relatively more important to the Brazilian agenda than the American agenda, is the criterion that is probably the most difficult to weigh as, particularly in the case of the US system, there are various players that contribute to agenda-setting. It is also the criterion the produced the most ambiguous results with evidence in three of the six cases. As such it is difficult to determine whether or not this criterion is actually a barrier for Brazilian businesses to access the U.S. market system.

Applying the results of the case studies to the literature also yields some interesting results. Returning to Gilpin's assertion that the three most important factors in analyzing any economy are (1) the purposes of the economic activity of the nation, (2) the role of the state in the economy, and (3) the structure of the corporate sector and private business practices, we can say that the results of this research support such a notion. Related to Gilpin's factor (2) are research criteria **(1)**, **(2)**, **(3)** (although in this case we are considering the role of a foreign state or state-like actor) and **(4)**, where we consider the role of the state in the international economy.

Gilpin's factor (1) is also supported, albeit indirectly, by the results of this research. According to Gilpin the purpose of economic activity of the US is to "benefit consumers while maximizing wealth creation: the distribution of that wealth is of secondary importance" (GILPIN, 2000, 150). This purpose determines the

characteristics of the American market system, which in turn will determine the presence (or lack thereof) of the research criteria.

Vogel's theories are also confirmed by this research. He wrote, "Understanding the dynamics of coalition-building, both among firms and industries and between business and non-business constituencies, is essential to any analysis of the extent and scope of business power" (VOGEL, 1996, 158). Coalition building is central to the implementation or removal of regulations and restrictions on imports (criterion (1)), as well as to determining the attention a particular issue receives on the Brazil-US bilateral agenda (criterion (2)). Also, it is the norm for issues addressed in the multilateral arena (criterion (4)) to build a coalition of interested parties, in order to lend weight to the issue in question. Criterion (2), however, is the one that is most directly related to Vogel's theory. Since this criterion was the one with the most ambiguous results, we can conclude neither that it is supported nor refuted.

Finally, returning to Wesson's presupposition,

It thus seems clear that US leverage on specific issues is very limited, unless this country is prepared to make a much larger economic or political investment in swaying or coercing Brazil than it has made in the past. And while diplomatic leverage is slight, the most effective US influence on Brazil is diffuse and unplanned, the general impact of one society, economy, and culture on another. (WESSON, 1981, 167).

It seems that the four criteria support Wesson's assertion that Brazil has more powers of coercion and input into trade matters than may be readily apparent. Though criterion (1) constitutes a strong barrier to Brazilian products entering the US market system, it does not limit exports altogether nor does it limit negotiations. In fact, as adjudication in multilateral forums has become more common (criterion (4)), with successful outcomes from the point of view of Brazil, we can also say that this criterion supports Wesson's assertions. In addition Vogel and Gilpin's characterization of the American system as open, fragmented and diverse, thus allowing for players to exert influence at various levels and points, supports Wesson's idea that Brazil does have influence and representation in the American system, which relates to criterion (3).

### **3.2.2 Additional Considerations**

In addition to the four criteria analyzed in the cases studies several potential barriers that could be used to refine my criteria came to light. The factors below therefore, are potential candidates for future research in successful access of Brazilian business to the US market system.

First, the Brazilian embassy in Washington identifies the largest barrier to Brazilian imports in accessing the US market to be the complex process of being certified by the US Department of Agriculture (Brazilian Embassy, 2007, 10). Particularly for exporters of produce or animal goods, proof must be provided that the products are safe and clean and meet stringent US standards. Some cases require a pest risk analysis that can take up to years to complete.

Another barrier is Mandatory Country of Origin (COOL) labels. This label is required on all products entering the United States for resale, a requirement that is especially difficult for particular products such as meat, produce, dairy or extremely small items.

Another problem, highlighted by both Gilpin and Vogel<sup>10</sup> in the literature review, is the difficulty of navigating the American system. Perhaps one of the most difficult obstacles for a Brazilian exporter to overcome is grasping a full understanding of the American system and just which entities may regulate the particular product that a person is seeking to export. Having a full understanding of which regulations must be followed prior to exporting any items to the US is critical to success, as is an understanding of how to appeal to US organizations when unfair trading practices are exercised. This may be particularly difficult for Brazilian exporters sending goods to the American market system because the Brazilian system and regulations are much more centralized.

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<sup>10</sup> On pages 10 and 13, respectively, of this document.

## 4 CONCLUSIONS

### 4.1 *Conclusions*

The objective of this research was to answer the question, How and Why some Brazilian businesses have access to the American market system. I sought to answer this question by identifying barriers that exist between the Brazilian business community and US market system.

As hypothesized, the results of this analysis confirm that at least four factors contribute to access (or lack thereof) of Brazilian businesses to the US market system. The first factor **(1)**, Restrictions and regulations on imports to the US system, is clearly a factor as it was identified in five of the six cases analyzed. One way to counteract or remediate such restrictions is by addressing them via bilateral or multilateral channels or to restructure business so as not to be subject to such restrictions.

The second factor **(2)**, Issues that are relatively more important to the Brazilian agenda than the American agenda, also affect access to the US market system. This factor was identified as being present in only two of the six cases analyzed (tobacco and fruits/vegetables) and may explain why these industries continue to be cited by the Brazilian Embassy as industries that face high barriers to US market access (Brazilian Embassy, 2007, 5).

Active representation in the US market system is a third factor **(3)** that, if not present, may act as a barrier for Brazilian business to access US markets. Such representation may be via official political channels or coalition-building. Due to the special nature of the American system, there is room for engagement by foreign actors to participate in agenda-building in both Brazil and the US. However, this factor was not identified in *any* of the cases analyzed and thus may help explain market access difficulties.

Finally, deferring issues to the multilateral arena for resolution (factor **4**) was identified in four of the six cases analyzed. In the case of fruits and vegetable this



debate continues to be one of the principle issues debated in the WTO Doha Round undeniably providing more attention to the issues than if it had not been pushed in to the multilateral arena. The WTO also resulted in rulings in favor of Brazil regarding cotton, and other issues such as sugar, agricultural and steel have also been debated in the international arena doubtless shining a spotlight on these issues and drawing more attention to Brazilian interests than if the cases were left to be resolved on a bilateral basis. Thus we can surmise that presence of the fourth criteria contributes to increased access to the US business system for Brazilian business.

This is not to say that all four of the criteria analyzed must be present in any particular case or industry in order to ensure access to the US market. Nor, if the four criteria are not met that the endeavor will necessarily have a negative outcome. It simply means that the presence of these four factors are good indicators as to the difficulty of accessing certain markets in the American system and provide useful insight to those that are interested in factors that affect US market access by Brazilian business. Because of the nature of this question it is quite impossible, to capture a list of criteria that will exhaust all of the possible factors contributing to market access.

Perhaps the single most important conclusion of this study is that it is extremely difficult (and equally important) for Brazilian exports to have a complete understanding of the complex American system and how to engage in an effective and efficient manner. Such knowledge would include understanding the implications of all of the criteria analyzed in this case i.e., the restrictions and regulations on the product or service being exported, interest groups and level of interest of the parallel American industry, how to engage and be represented in the American market system as well as in the multilateral arena.

## **4.2 Limitations**

For more conclusive results the criteria could be applied to a wider range of case studies. Soy, meats and avionics are all very important industries in Brazil that have some level of exports to the US and would ideally be included in a study of this nature. Unfortunately, I did not have the time neither the resources to include all of the cases should have been analyzed.

Also, it is clear that several more criteria would have to be applied in order to provide a comprehensive list of criteria that determine access to the US market system.

Many of the sources used in the case study analyzed were government sources, both Brazilian and American. Second-hand information, such as the sources in this analysis, is always subject to some level of bias.

The methodology used in this research though valid is also subject to error as the application of the criteria analyzed is largely subject to interpretation.

## **4.3 Recommendations**

The results of this research reveal some interesting insights that could be the subject of future research. Two potential areas for future research are Administrative Barriers and Agricultural subsidies.

Deeper research in to the effects of two of the criteria selected would offer some valuable insight in to barriers to access the American market system. Further analysis of how Brazilian business can participate in the American system—by building coalitions with American allies or directly accessing decision-makers—is an area that clearly could be leveraged to improve access to the American market.

Also, further analysis of the tobacco industry and how recent legislation opening the American market system affects Brazilian industry may provide insight in to the extent of how a change in just one of the criterion—regulation on the amount of imports—can affect an entire industry.

Other areas for future research include areas that were not addressed by this analysis such as cultural issues, and how they affect Brazilian business access to the US market system. Also, analysis of other industrial sectors or particular time frames may provide more detail in to barriers that Brazilian business overcome in accessing the American market system.

Another area for potential research is measuring the protectionist interests in the American market. As Abreu points out, some interests are much more entrenched than others and valuable political capital is best spent on those areas where the interest may not be as intrinsic or where export interest might counterbalance protectionist interests (ABREU, 2005, 12). This point relates to criterion number two, and the relative importance of each issue to both nations. Abreu proposes an interesting measure of the importance of protectionist issues to policy makers by comparing the number of lower house representatives likely to defend protectionist policy stances in the United States is to the number of “deputados” in Brazil directly concerned with protectionism (ABREU, 2005, 98) but notes that the political weight of individual states is extremely elastic and is yet another factor that would have to be included in analysis of relative importance of issues and how those issues are resolved.

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